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Evaluation of

European Union Aid

to African, Caribbean and Pacific Countries

Field Phase

Case Study No.7: East Caribbean

EVALUATION OF EU AID TO ACP COUNTRIES

Field Phase

Case Study 7: EASTERN CARIBBEAN

Investment Development Consultancy
7, rue Rougemont,
75009 Paris, France
email: idcuk@montes.demon.co.uk

in association with Mokoro Ltd.

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LIST OF ABBREVIATIONS

ACP	Africa, Caribbean and Pacific
ACS	Association of Caribbean States
BDDC	British Development Division in the Caribbean
BGA	Banana Growers' Association
BWI	Bretton Woods Institutions
CARICOM	Caribbean Community
CARIFORUM	The Caribbean Forum
CDB	Caribbean Development Bank
CEDA	Caribbean Export Development Agency
CET	Common External Tariff
CGCED	Caribbean Group for Cooperation in Economic Development
CRIP	Caribbean Regional Indicative Programme
DAG	Global Commitment Authorisation Decision (form)
DRAO	Deputy Regional Authorising Officer
EC	European Commission
EC	European Community (when referring to European Commission managed aid)
EDF	European Development Fund
EIB	European Investment Bank
END	End of Appraisal Report (form)
EU	European Union
GDP	Gross Domestic Product
IADB	Inter-American Development Bank
IMF	International Monetary Fund
NIP	National Indicative Programme
OECS	Organisation of Eastern Caribbean States
PIS	Project Identification Sheet (form)
PMCU	Programme Management and Coordination Unit
PMS	Proposal to Mobilise Services (form)
PU	Programming Unit (of CARIFORUM)
QSG	Quality Support Group
RAO	Regional Authorising Officer
UN	United Nations
WTO	World Trade Organisation

PREAMBLE

The Evaluation of EU Aid to ACP countries is part of a general evaluation of EU aid requested by the Development Council in June 1995. The second phase of the study focuses on: (i) policy formulation; (ii) policy dialogue between the EC and the individual ACP states; and (iii) aid implementation and management.

The field stage looks at policy dialogue and aid implementation in six countries and one region concentrating on selected aspects of EC assistance in each country/region. The present report is concerned with the regional programme in the Caribbean. The other six reports cover Zimbabwe, Tanzania, Côte d'Ivoire, Cameroun, Liberia and Jamaica.

The field study of the Caribbean regional programme is particularly focused on the Eastern Caribbean countries which are members of the Organisation of Eastern Caribbean States (OECS). Its sectors of concentration are: (i) the international trade relations with respect to bananas; and (ii) regional trade and integration. The study focuses both on issues of policy dialogue and of the implementation of EC assistance provided under the Caribbean Regional Indicative Programme (CRIP).

The study report is based on the findings from a short visit to Barbados undertaken from 17-27 February 1998[1]. The field work was organised around:

- the review of project files;
- interviews with EC Delegation staff;
- interviews with representations of the EU Member States, other donors; and
- interviews with regional programme and project staff.

The draft report was presented in May 1998 to the Working Group of Heads of Evaluation Services (Development) of the European Union and the Commission.

The evaluation team is grateful for the support of the EC Delegation, and for the collaboration of Government officials and the representatives of other donors (particularly Member States).

C. Montes
ACP Evaluation Field Phase Coordinator

Those wishing to obtain copies of the synthesis report or the other case studies should contact the Head of the Evaluation Unit, Common Service Relex of the European Commission.

1 See Annex A for the list of people interviewed.

EXECUTIVE SUMMARY

This field study is concerned with the regional assistance programme to the ACP countries in the Caribbean Region. It is particularly focused on the small island states of the Eastern Caribbean and considers the policy dialogue on bananas (OECS), and the wider policy dialogue on promoting regional integration and trade (CARIFORUM, CEDA). The study also looks at CARIFORUM's role as the regional association of ACP countries which is responsible for the management EC regional aid.

The principal findings of the study are that the EC has played an active role in addressing the problems of adjustment in the banana industry in the Eastern Caribbean. In the wider area of promoting regional trade and economic integration, its assistance appears to have been insufficiently focused. The implementation of the EC regional assistance programmes has faced problems of implementation delays arising from the application of EC systems and procedures that are common to ACP country programmes.

Regional Context

There are 15 ACP countries in the Caribbean, all but three of which are island states. Haiti and the Dominican Republic are the most recent countries to join the regional ACP group and acceded to the Lomé Convention in 1991.

The countries show wide disparities in levels of economic development. They have small open economies with imports of goods and non-factor services averaging about 80% of GDP. Apart from Jamaica, Guyana and the Dominican Republic, the countries have not faced severe external debt crises. Fiscal policies have generally been conservative. Around 24% of the workforce is employed in the public sector. Declining aid flows and the erosion of preferential trade arrangements are placing pressure on the ACP countries to diversify and make their economies more competitive.

There are a number of regional economic associations and considerable overlap between them. The Association of Caribbean States (ACS) is the largest and most recent of these groupings. CARICOM comprises the ACP countries less Suriname, Haiti and the Dominican Republic and has as its main aim the creation of a single market among its members. The Organisation of Eastern Caribbean States (OECS) is a grouping of seven of the smallest island states in the Windward Islands. CARIFORUM includes all ACP countries and exists as the inter-face on regional cooperation and trade issues with the EC. The Caribbean Group for Cooperation in Economic Development is the main forum between the Caribbean countries and the International Financial Institutions.

EC Aid to the Caribbean Region

EC regional aid is provided as project assistance through the Caribbean Regional Indicative Programme (CRIP). Additional regional funds are available from EC budget lines and from the European Investment Bank (EIB):

- Allocations for the CRIP under EDF 7 totalled 105 Mecu, of which 15 Mecu represented an additional allocation following the accession of Haiti and the Dominican Republic to Lomé. Implementation of the programme has been delayed and Financing Agreements for a number of major projects were not concluded until 1995. By the end of 1996, 97% of the original EDF 7 CRIP allocation had been committed, of which 8% had been disbursed. An allocation of 90 Mecu has been allocated to the CRIP for EDF8. The main focal areas for EDF 8 are: (i) regional integration and cooperation; and (ii) human resources development and regional capacity building.

- Between 1991 and 1995 financing from EC budget lines totalled 9.3 Mecu of which 7.9 Mecu was allocated to the banana industry.
- EIB regional lending has been mainly to support operations of the Caribbean Development Bank. The EC has also provided risk capital (managed by the EIB) to support the development of small and medium enterprises.

OECS national aid allocations under Lomé IV (including EIB) totalled 238 Mecu at the end of 1996. Of this amount, 129 Mecu represented Stabex allocations to St. Vincent, St. Lucia, Grenada and Dominica. The EC is the largest donor in the OECS accounting for some 25% of all aid flows. Coordination with donors tends to be through informal mechanisms. There is a regular exchange of information between the Delegation, UK representations, and the French representation in St. Lucia.

Regional Policy Dialogue

Indicative programming for EDF 8 began with the preparation by the Delegation of the Strategy Paper. This elaborated a strategy of "open regionalism" in which regional integration within the Caribbean leads to greater integration with the world economy. Within this framework, EC assistance is seen as facilitating: (i) strengthening Caribbean participation in regional economic bodies; (ii) the reform of public sector institutions; (iii) trade development and the elimination of trade barriers; and (iv) the harmonisation of commercial regulatory frameworks and fiscal regulations. Because it involves 15 countries, policy dialogue in the preparation of the CRIP is necessarily relatively limited and involves few policy reform commitments and conditionalities. There is considerable coherence in the choice of sectors supported between the CRIP and National Indicative Programmes (NIPs).

On bananas, the EC has conducted a very active policy dialogue with the producer countries of the OECS with the aim of facilitating the restructuring of the industry. This dialogue was initiated by a donor group led by the EC which was established in response to falling prices and production levels and the threat of further loss of market share following a 1997 WTO ruling and the expected phasing out of banana quotas. It led to the development of an action plan aimed at: (i) increasing the efficiency and competitiveness of Windward Islands bananas production; (ii) commercialising the operations of the Banana Growers' Associations (BGAs); (iii) reforming price mechanisms in order to encourage producers either to leave the industry or increase their efficiency; and (iv) simplifying and promoting greater competition within the distribution chain.

The action plan was adopted at a meeting at Prime Ministerial level in Kingstown/St. Vincent in 1995, and was subject to two subsequent agreements concluded in Castries in November 1996 and January 1998. These provide for the use of Stabex financing totalling 103 Mecu to support the implementation of the restructuring plan and also make available budgetary support to meet the additional fiscal demands caused by restructuring. The EC has coordinated the donor group very effectively and this has facilitated coordination and complementarity between the support being provided by the EC and other donors involved in the restructuring programme. The proposed use of Stabex financing is innovative and required intense negotiation with the OECS governments.

On regional trade and economic integration, the objective of EC support has been to facilitate regional integration by changing the relatively inward orientation of regional trade. This is to be achieved through reducing barriers to external trade and encouraging countries to join broader regional agreements. The strategy involves: (i) the use of CARIFORUM to support the negotiation of future global trade agreements for the Caribbean ACP countries; (ii) the financing of a trade development programme implemented by the Caribbean Export Development Agency (CEDA); and (iii) the provision of infrastructure financing. Our findings suggest that there may be an insufficient strategic focus to the programme.

The Caribbean Export Development Agency (CEDA) which is supported through the CRIP has had some success in providing support to exporters in developing export markets. However, there is some concern that it may be targeting some products which are primarily traded in regional markets and which, while enjoy high levels of protection, are not internationally competitive. According to a recent draft evaluation, the effectiveness of some components of CEDA (institutional support and human capital development) has been limited. Better coordination with the private sector was recommended.

CEDA has had an impact, though limited, in influencing trade policy. Through studies, it has contributed to discussions on deepening CARICOM mechanisms and on new trade arrangements.

Regional Aid Implementation and Management

Effective policy dialogue and efficient programme implementation requires strong aid management procedures. The role and resources of the EC Delegations, the strength of the collaborating regional organisations, the arrangements for project identification and preparation, and the effectiveness of implementation procedures for EC projects all influence the effectiveness of aid management.

Through its eight <u>Delegations and two EC Offices</u>, the EC has the largest representational structure among donor agencies operating in the Caribbean. The Guyana Delegation has overall responsibility for liaison with Headquarters and CARIFORUM on regional cooperation issues. The Delegation in Barbados is responsible for the aid programmes to the OECS countries, for regional programmes in seven sectors, and for the policy dialogue on bananas. Highly centralised decision-making procedures, limited financial delegation and extensive EC financial controls result in a heavy administrative workload on the Delegations and considerably reduce the professional resources available for dealing with substantive policy issues and aid programme management. The situation is made more difficult by delays in appointing replacement staff. Delegations rely on Headquarters mainly for administrative support in pursuing decisions in Brussels and only to very limited extent in providing expert policy advice.

<u>CARIFORUM</u> is mandated by the ACP governments in the Caribbean to handle the management of regional aid programmes. Its formal ministerial meetings are held annually. A small Programming Unit (PU) in the CARIFORUM Secretariat is responsible for preparing the CRIP and subsequently for the identification and preparation of projects. In these tasks it relies heavily on the use of consultants. Project management is undertaken by governments or implementing agencies usually under the overall supervision of a Deputy Regional Authorising Officer (DRAO) nominated for the project. A recent innovation is the creation of Programme Management and Coordination Management Units (PMCUs) to support implementation of the major regional programmes involving a number of implementing agencies. While CARIFORUM appears to have been effective in increasing commitment rates under EDF 7, there is some evidence that this may have been at the expense of the adequate involvement of those organisations responsible for subsequent implementation. This could had have an adverse impact on the subsequent implementation stage.

<u>Project selection</u> is reported to be heavily influenced by the desire of the CARIFORUM member countries to see the sharing or regional funds between countries. National considerations can also result in programme activities becoming overly dispersed among a large number of countries. More generally, the procedures for project identification, preparation and financing involve delays.

<u>Programme implementation</u> delays are attributable to: (i) the complex institutional and operational structures relating to regional programmes; (ii) overly complex programme and project design; (iii) limited resources in the PU and Delegations to monitor implementation; (iv) insufficient ownership of programme at the level of national governments; and (v) lengthy and

bureaucratic procurement procedures which have particularly affected the recruitment of PMCUs. In the case of the tourism and human resources development programmes, recruitment of the PMCU staff took over 30 months and considerably delayed the start-up of programme activities. EC payment conditions and delays also make it difficult for local consultants to tender for TA contracts.

However, in the implementation of project activities, extensive use has been made of the work programme procedure in order to allow for the necessary flexibility in management. Project monitoring is weak. A regular programme of evaluations is in place and in some cases has resulted in significant changes in the operation of regional programmes.

CHAPTER I. REGIONAL CONTEXT

A. The Caribbean Region

The Caribbean Basin comprises 37 countries in Central and Latin America and in the Caribbean Sea. Among the Caribbean island states there are francophone, anglophone and hispanophone states as well as five British Dependent Territories, three French Overseas Departments, two Dutch Dependent Territories and two US Associate Territories. Within the Region there are 15 ACP countries[2], which except for Belize, Guyana and Suriname are island states. The Organisation of Eastern Caribbean States (OECS) has a membership of seven small independent states in the Windward and Leeward Islands.

B. The Regional Economy

External Balances

The Caribbean ACP countries show wide disparities in levels of economic development. They have small open economies, with imports of goods and non-factor services averaging about 80% of GDP. This makes them particularly vulnerable to external shocks including bad weather and adverse fluctuations in terms of trade. Because currencies are mostly pegged to the US dollar, the economies are also vulnerable to fluctuations between the US dollar and major European currencies. The Region benefits from trade preferences under both EU and USA trade regimes. However, following the Uruguay Round and the establishment of the World Trade Organisation (WTO), these preferential arrangements are now threatened.

With the exception of Jamaica, Guyana and the Dominican Republic, the Caribbean economies did not experience severe external debt crises and relatively generous aid flows have limited the need for balance of payments support. However, in more recent years aid has declined and the favourable trade arrangements are being eroded. The consequent need for adjustment is putting increasing pressure on Caribbean countries to diversify and make their economies more competitive, and to open state controlled industries to the private sector. This is reinforced by pressures from lower cost American producers. The banana industry in the OECS states provides a good example of the urgency of such restructuring (see Chapter IV).

Fiscal and Social Policy

The public sector has had an important role in most of the Caribbean ACP economies. Government expenditures were around 35% of GDP in the late 1980s and have changed little since then. Most of the ACP countries, including those in the Eastern Caribbean, have followed relatively conservative fiscal policies. Public expenditure has been directed to infrastructure (often in support of tourism development), education and health services. Survey evidence[3] suggests that public expenditure on

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2 Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, and Trinidad & Tobago.

3 For example, *Poverty Reduction and Human Resource Development in the Caribbean*, World Bank, May 1996; *Poverty Assessment Reports (St Lucia, St Vincent & Dominica)*, Caribbean Development Bank, 1996.

basic services has been generally progressive, but less so for secondary and tertiary services.[4] Education and health services are free, and literacy rates are high.

Expenditures on safety net programmes average over 1.5% of GDP across the ACP countries, targeting children, low income families with children, the elderly, the unemployed and the disabled. National insurance schemes are being developed in many countries. The population structure of the region is characterised by high dependency ratios, and this puts a strain on the social safety net budgets. Drug abuse is a growing problem in most of the countries, as is abuse of women.

Over 24% of all workers are employed in the public sector and the share of wages in total public expenditures is correspondingly high. The link between fiscal policy and overall employment is particularly strong. In principle, regional co-operation provides the opportunity to reduce some of the costs of the public sector.

C. Regional Economic Bodies[5]

The region has numerous economic associations. The Association of Caribbean States (ACS), which includes most of the Region's countries, is the most recent of the regional groups. The Caribbean Community (CARICOM) is the oldest group, having been established in 1973 with the long-term aim of establishing a single market among its member countries. The Organisation of Eastern Caribbean States (OECS) has a membership of seven small independent states in the Windward and Leeward Islands[6]. The headquarters of ACS is in Trinidad, of CARICOM in Guyana and of the OECS in St Lucia.

Two regional bodies have been established to facilitate relations with international bodies. The Caribbean Forum (CARIFORUM) was created in 1991, when Haiti and the Dominican Republic joined the ACP states. It is based in Guyana and facilitates coordination between the regional ACP members and the EC on regional aid and trade issues. Similarly, the Caribbean Group for Co-operation in Economic Development (CGCED) is an important forum for discussions between the Caribbean countries and the International Financial Institutions, as well as other donors.

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4 Although more than in other poor countries.

5 For recent background information on regional economic bodies in the Caribbean region, see H. Gill, F. Pellerano and R. Hess, *A New Strategy to Promote Regional Integration in the Caribbean Region*, Evaluation Unit of DGVIII, March 1996.

6 Anguilla and the British Virgin Islands are Associate Members.

CHAPTER II. EC AID TO THE CARIBBEAN REGION

A. Size and Composition of European Community Aid

EC aid to the Caribbean Region, as opposed to its individual countries, is provided as project assistance through the Caribbean Regional Indicative Programme (CRIP). In addition to aid provided though the CRIP, regional funds are also made available from EC budget lines and from the European Investment Bank (EIB). A number of the Eastern Caribbean states have received substantial Stabex assistance which, although provided at country level, has in recent years had a strong regional dimension linked to the international trade discussion on bananas (see Chapter IV).

CRIP Allocations Under EDF 7 and EDF 8

A total of 90 Mecu was allocated to the CRIP under both EDF 7 and EDF 8. In 1995 EDF 7 allocations were increased by an additional 15 Mecu for programmes in Haiti and the Dominican Republic following the accession of these countries to the Lomé Convention[7]. **Table 1** shows the main focal areas for assistance under the CRIP (excluding the Haiti and Dominican Republic allocations for EDF 7).

Table 1: CRIP Allocations for EDF 7 and EDF 8

Sectors Prioritised	CRIP EDF 7		CRIP EDF 8	
	Mecu	% of total	Mecu	% of total
1. Regional Integration and Co-operation	49.5 (i) trade and tourism; (ii) agriculture; (iii) transport and communications	55%	40.5 Mecu (i) trade, tourism, private sector development; (ii) rural development; (iii) infrastructure	45%
2. Sustainable Development/ Human Development and Capacity building	36.0 (i) human resource development; (ii) environment	40%	37.8 (i) human resource development; (ii) regional capacity building	42%
3. Action outside focal objectives	4.5 (i) non-tied TA and ad-hoc studies; (ii) cultural co-operation	5%	11.7 (i) decentralised co-operation; (ii) programming, monitoring, evaluations (incl programme unit for CARIFORUM)	13%
Total	90.0 (1)	100%	90 Mecu	100%

Source: Regional Indicative Programme for the Caribbean region, Fourth Lomé Convention, First and Second Financial Protocol.

Note: (i) In 1995 an additional contribution of 15 Mecu was allocated to the Caribbean ACP countries to complement the funds allocated for the CRIP under EDF 7.

7 Under EDF 8 the continuation of this funding will be incorporated into national aid allocations.

Implementation of the CRIP under EDF 7

Implementation of the trade and tourism programmes under EDF 7 have progressed well (**Table 2**). By the end of 1996, more than half of trade commitments had been translated into contracts (a third in the case of tourism), while the overall average is 25%. However, disbursements were only 8% of commitments. The low level of disbursement is due to financing agreements for a number of major projects not being signed until after mid 1995.

Table 2: EDF 7 Implementation - Caribbean Regional Indicative Programme (end 1996)

Total Allocation	Primary Commit-ment * Mecu	Secondary Commitment Mecu	Secondary Commitment % of Primary Commitment	Disbursement Mecu	Disbursement % of Primary Commitment
95.0	87.5	22.2	25.4%	7.0	8.0%

Source: Regional Cooperation in the Caribbean, Annual Report 1996, prepared by the EC Delegation, Guyana.
* Excludes additional 15 Mecu allocated in 1995 following accession of Haiti and the Dominican Republic to Lomé.

Budget Lines

The Caribbean region also benefits directly from EC budget lines:

- Between 1986 and 1990 budget line allocations totalled 0.5 Mecu divided between: (i) evaluations (0.3 Mecu);and (ii) NGO co-financing (0.2 Mecu).
- Between 1991-1995 budget line allocations totalled 9.3 Mecu divided between: (i) evaluations (0.1 Mecu); (ii) NGO co-financing (0.9 Mecu); (iii) environment (0.3 Mecu); (iv) the banana industry (7.9 Mecu); and (v) support for women in development (0.1 Mecu)

EIB assistance

A loan of 20 Mecu provided from the EIB's own resources was agreed on in October 1996 to be paid as a global loan to the Caribbean Development Bank. The EC also provided risk capital (managed by the EIB) to support the small and medium sized enterprise sector through the Caribbean Financial Services Corporation[8] and the transport sector (4 Mecu).

EC Assistance to Countries at a National Level

Regional allocations under the Lomé Convention are additional to a country's national programmes. Each of the fifteen countries benefiting from the regional programme has its own National Indicative Programme (NIP) and may also benefit from programme aid provisions. In the case of the OECS region, four countries (St. Lucia, St. Vincent, Grenade and Dominica) receive substantial Stabex funds as a result of declining international banana prices. Under Lome IV these have totalled 130 Mecu, or more than half of total aid to the Eastern Caribbean states (**Table 3**). These countries have also benefited from EIB's interest rate subsidies or risk capital. Grenada and Dominica received structural adjustment support.

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8 2 Mecu under Lomé III and 4 Mecu under Lomé IV.

Table 3: Eastern Caribbean Countries - Lome IV Allocations (December 1996)

	Mecu					
	NIP	STABEX/	Structural. Adjustment	Risk Capital/IRS**	EIB Loan	Total
St Vincent	5.4	45.1		5.0		55.5
St Lucia	5.0	44.5		3.8	10.0	63.3
St Kitts	2.5				2.0	4.5
Grenada	6.5	12.3	2.0	2.4	4.0	27.3
Dominica	5.5	27.7	2.2	2.5		37.9
Antigua & Barbuda	3.5					3.5
Barbados	5.5				30.0	35.5
Anguilla	2.9					2.9
British Virgin Islands	2.4				1.5	3.9
Montserat	3.9					3.9
Total	43.1	129.6	4.2	13.7	47.5	238.2

* = includes special assistance for banana producing countries
** = risk capital, special loans or interest rate subsidies paid for from the EDF but managed by the EIB

B. Institutional Arrangements for EC Aid

Coordination with other donors in the OECS region

The European Community is the largest donor to the OECS region. The UK also has a substantial aid programme and representation in the region. France is represented through its Caisse Francaise de Developpement. The USA and Canada were formerly significant donors but have scaled down their contributions in the recent years. Many UN agencies are present in the region.[9] In some countries in the region, the BWI has an active lending programme, and the Inter-American Development Bank (IADB) and Caribbean Development Bank (CDB) are also important donors.

UNDP is responsible for coordination among UN agencies and other donors and used to prepare a report on aid donors and lenders to the region.[10] This report shows that in 1995 the EC represented 25% of all aid to the region, while the UK accounted for 20%. US and Canada still accounted for about 40% of the total aid. The IADB was the major source of loan financing, although in individual countries borrowing from the CDB, EIB and Caisse Francaise was also significant.

Coordination

There has been a relatively low level of donor coordination at regional level. UNDP used to organise donor meetings but they were not well attended. UNDP also believes that the countries in the region prefer to be in charge of coordination themselves. Donor coordination in emergency and disaster preparedness during the hurricane season continues to be very effective.

Regional coordination among EU donors is not formal. In the most recent programming exercise, the Delegation organised a consultation with EU member states on the Strategy Paper and the NIP. Moreover, there is a coordination mechanism for the discussions on banana issues and on the social sectors in the Windward islands (Stabex-related). Within the OECS area, the Delegation, the UK representations, and the French representation in St. Lucia exchange information on the

9 Including UNDP, UNICEF, FAO, UNIFEM and the UN organisation for Drugs Control.

10 UNDP, *Tables on External assistance by donor - Eastern Caribbean region, Development Co-operation 1993- 4 Report.* Since then no comparative data exist. According to a UNDP representative, producing such a report had become less of a priority after 1995 when the United States and Canada reduced their programmes substantially and the EU remained as the main donor before the UK.

developments in the different countries as well as on their aid interventions. This is particularly important because the UK has the second largest aid programme in the region. Some of the EC and UK programmes are complementary (e.g. banana restructuring in the Windward Islands, education in the OECS and water supply in Grenada).

CHAPTER III. REGIONAL POLICY DIALOGUE

A. Introduction

The Caribbean region poses special challenges to the EC in engaging in policy dialogue due both to the large number of states involved and their strong sense of political autonomy.

This chapter considers the EC's policy dialogue in three main areas: (i) the preparation and negotiation of the Caribbean Regional Indicative Programme (CRIP) for EDF 8; (ii) the response to developments in the banana industry in the OECS; and (iii) the issues of intra-regional trade and regional integration handled through CARIFORUM.

B. Preparation of the Caribbean Regional Indicative Programme

The Caribbean Strategy Paper

The programming process for EDF 8 began with the preparation of a Regional Strategy Paper (**Box 1**). Compared to the previous programming exercise, more preparatory work was done in the region. The Strategy Paper was prepared by the Delegation in Guyana with inputs from several units from Headquarters. The paper was also discussed by the heads of Delegations in the region and with representatives of the Member States. In Headquarters the paper was scrutinised by the Comité de Suivi before being presented to the EDF Committee in September 1996. Following its approval in September 1996 the Strategy Paper was used as the EC's mandate for negotiating the CRIP for EDF 8.

Preparation of the Caribbean Regional Indicative Programmes

While preparation of the Regional Strategy Paper primarily involves the EC and the Members States, the ACP countries were fully involved in the preparation and negotiation of the CRIP for EDF 8. The Programming Unit in CARIFORUM was responsible for preparing the draft CRIP, following the framework provided by the Regional Strategy Paper, but with the Caribbean states deciding on the overall objectives and focus of the programme. It was then negotiated between the EC and CARIFORUM and the size of the aid programme and sector priorities formally agreed. The CRIP was eventually signed on 19 February 1997[11].

The CRIP is more narrowly focused and detailed than the NIPs. Because it involves 15 countries it necessarily involves fewer policy and reform commitments and conditionalities. However, there is considerable coherence in the choice of sectors supported between the CRIP and NIPs.

[11] The previous regional indicative programme was signed in July 1992 and was mostly produced under the leadership of CARICOM. It undertook the sector analysis and presented the programme to the Council of Ministers. CARICOM also amended the regional programme and negotiated it with the EC.

Box 1: The Caribbean Regional Strategy Paper for EDF 8

In the context of the preparation of EDF 8, the purpose of the Caribbean Regional Strategy Paper was to inform decision makers of the factors influencing the choice of aid programmes. The medium term effects of restructuring measures are explicitly considered as well as their poverty impact. This provides the basis for the identification of a strategy consistent with overall growth and poverty goals. The Strategy paper also includes an overview of regional organisations and initiatives and of donor aid inflows and suggests greater involvement of the private sector and civil society through CARIFORUM and the Programming Unit.

The paper identifies the regional integration strategy as one of "*open regionalism*". It sees regional economic integration as a necessary condition for the integration of the Caribbean countries in the world economy. It considers possibilities for EU interventions:

- ◊ to improve the conditions for Caribbean participation in regional economic bodies (such as the ACS);
- ◊ to support public sector institutions
- ◊ to support trade development aimed at elimination of barriers to trade and investment;
- ◊ to support policy, legal, and regulatory reform and harmonisation in the fields of trade, standardisation, investment and company and fiscal regulations.

Two focal sectors are identified for EDF 8: regional economic integration and human development and capacity building. The paper proposes capacity building support to regional organisations in the future "*where they prove to be effective and politically feasible*". It also supports capacity building in environment, population policies, disaster preparedness, science and technology, and drugs. While the Strategy Paper appears to be of high quality, in some areas there is lack of technical analysis to justify the proposed strategies (e.g. in the discussion of intra-regional trade and 'other interventions').

In the discussion of the Strategy Paper with the Caribbean representations of the Member States, some representatives argued that the paper did not make clear which programmes were to be financed. The British noted that the proposed scope of the policy dialogue was too wide ranging. Other Member States mentioned the difficulties of regional interventions covering 15 countries and their preference for sub-regional initiatives. Some were critical of the additional bureaucracy involved in CARIFORUM.

When the Strategy Paper was discussed by the EDF committee some of these comments were repeated. As a result, the EC strengthened the sub-regional focus of the Strategy Paper and decided to keep the negotiating mandate general, given the limited success that had been achieved in the implementation of the EDF 7 CRIP.

C. Policy Dialogue in International Trade Relating to Bananas

Context

Bananas have enormous social and economic significance for many countries in the region. Indeed, much of the argument used in favour of the continuation of preferential trade agreements relates to the social problems which will occur as these agreements are terminated.[12] The history of the banana culture in the Caribbean is long and linked with the struggles of freed slaves to establish their economic independence and of the poor to survive natural disasters. It has also had an important socio-political role in maintaining democratic and collectivist traditions. Consequently, there are many non-economic factors that inform the banana policy dialogue.

The banana trade arrangement, which guaranteed access and high prices to ACP bananas in Europe acted as an incentive against improving quality and efficiency. Moreover, the way in which banana production and export are organised in the Windward Island is a major cause of inefficiency (**Box 2**). The institutional arrangements are such that growers get a price that does not fully reflect the variation in prices in Europe, nor quality differences. In this context, growers only bear a moderate risk and have very little incentive to diversify and improve quality.

12 e.g. Joseph M B, *Post Lomé IV Arrangements Must Mirror the Principles and Instruments of Lomé: A Perspective from the Banana Sectors of the Windward Islands*, ECDPM Working Paper Nr 18, Maastricht, 1997.

Despite these preferential trading arrangements, Windward Island earnings from their banana exports to Europe have declined steadily from EC$ 376 million in 1992 to EC$ 224 million in 1996. This trend is mainly due to a drop in the volume of exports and, to a lesser extent, to a decline in prices. Over this period the Windward Islands lost a third of their market share and average quota utilisation rates were down to 65% (from 80%).

Box 2: Organisation of the Eastern Caribbean Banana Trade

The way in which the banana industry in the Eastern Caribbean is organised has contributed to the conditions which have led to declining production during the 1990s and to the difficulties which will be faced in adjusting to greater international competition.

In each of the Eastern Caribbean countries there is a Banana Growers' Association (BGA), which is a parastatal, and which buys bananas from the growers at a price which only marginally reflects market prices. Differences in prices do not fully capture differences in quality. This implies that high quality producers subsidise low quality producers. It provides little incentive to growers to improve product quality. Low quality was a major element explaining the loss of export revenues in the 1990s.

The risk of growing bananas is borne by the BGAs. The distribution of Caribbean bananas into Europe is an oligopoly, supported by the licensing system. Distributors, which transport and ripen bananas, give to the BGAs a price which takes into account the market price of bananas, less freight and ripening costs and their margins. As a result, the risk of price fluctuations is not spread along the production and marketing chain, but it is borne entirely by the BGAs. The BGAs' debt by the end of 1994 was EC$ 130 million against total export earnings in the same year of EC$ 216 million.[13]

The heavy load of this trade rests on the shoulders of the Windward Islands. The BGAs bear the risk, whereas the growers get a relatively guaranteed price, but which is normally less than 20% of the retail price in Europe. A recent study of the EU policy for the Banana Market[14] shows that if the retail price of bananas in the UK is 48 pence, the producer country would get 15.1 pence, the import and wholesaler 8.9 pence and the retailers 19.1 pence (data for 1989). This system although inefficient worked while the banana trading arrangements generated sufficient rents to ensure adequate returns to each party.

The decline in export earnings is explained by a set of factors pertaining both to the organisation of production in the islands and market conditions in Europe. Environmental misfortunes, production costs, uncertainty over marketing arrangements, periodic shortage of inputs and falling prices all contributed to curtail the supply of bananas. Moreover, quality became a major problem. In 1995, the region lost EC$ 50 million (18% of export earnings) because of quality claims. On the demand side, Central American producers are becoming more competitive and have drastically increased market share.

WTO rulings against the 1992 EU banana regime, can be expected to make conditions for Caribbean growers more difficult. If national quotas are abolished, the Windward Islands can be expected to lose further market share to more efficient ACP producers.

The Policy Dialogue with the EC

In 1994, in the context of the deterioration of banana export conditions, the OECS Secretariat requested assistance from a number of different donors. In response a donor group was formed in March 1994 and including the EC, the British Development Division in the Caribbean (BDDC), UNDP and the CDB. The donor group decided that it was not appropriate to provide aid funds in the form of price support as changes in trade policy and in the market for bananas in Europe meant that a more fundamental restructuring of the banana industry was required.

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13 Cargill Technical Services Ltd, *Action Plan for the Restructuring of the Windward Islands Banana Industry*, 1995

14 Stevens C, in Wallace H and W Wallace (eds.), *Policy Making in the European Union*, Oxford University Press, 1996

The donor group, in agreement with the OECS, therefore commissioned a preliminary study to analyse the major deficiencies of the industry and identify key restructuring measures[15]. This led to the adoption of an action plan by the donors and the OECS governments at meeting in Kingstown in September 1995. This provided for the development of a core banana industry capable of competing in liberalised markets by the year 2002 (**Box 3**).

Box 3: Restructuring of the Banana Industry

The restructuring of the Windward Islands banana industry will require:

- ◊ increasing the efficiency of Windward Islands growers by directly targeting and supporting their efforts to improve farming practices;
- ◊ commercialising part of the activities of the Banana Growers' Associations (BGAs);
- ◊ reforming the price mechanism so as to give producers the right incentives to either leave the industry or increase their efficiency;
- ◊ simplifying and dismantling the distribution chain, so as to transfer back part of the marketing rent to distributors.

The overall strategy, that was agreed at Kingstown and further developed at two subsequent meetings in Castries, takes into account the importance of the banana industry in the economic and social life of the countries involved and incorporates social actions to ease the transition. It is estimated that restructuring could require a reduction of two thirds in the number of growers. If this reduction is implemented, and production is concentrated in the most fertile land, the Windward Islands can produce a competitive product for the European market. Support should therefore only be granted to *'those farmers who are considered to be able to survive in a fully competitive environment'* (Castries II Agreement).

A much stronger drive towards efficiency and restructuring will come from changes in the price system. The aim is *'to ensure that individual growers receive the market returns for the quality of their product so that producers of good quality fruit do not subsidise the low quality producers'* (Castries II Agreement). However, the system of governance of BGAs could present major barriers to changing the price mechanism. Since the board of directors of each BGA are elected by the growers on a one-man one-vote basis, it faces difficulties in taking unpopular decisions. Moreover the BGAs are effectively parastatal organisations as their debts are covered by government guarantees. The boards are therefore not accountable for their debts reducing the pressure to take difficult decisions. Another necessary step to transform banana production into a market driven activity would be to privatise some of the activities of BGAs.

The simplification of the bananas' distribution and marketing system should happen as a consequence of the dismantling of the licensing system in Europe, following the WTO ruling. However, there are two major obstacles to the liberalisation of distribution and marketing, which are independent of the licensing system. First, growers are compelled by law to sell their products to the BGAs. Second BGAs, together with their governments own the Windward Islands Banana Development Company (WIBDECO) which has a joint venture with a European partner owning Geest bananas, a European banana importer. Geest and its European joint owner now have an effective monopoly on the import of Windward Islands bananas into Europe. This has resulted in some conflict of interest within the BGAs and it is questionable whether they would favour greater liberalisation of the distribution system which might allow growers to deal directly with non-monopolistic buyers.

Restructuring of the banana industry will involve considerable social costs during the transitional period. The dependence of many poor families on small-scale banana growing has been described in many poverty studies. However, the existing structure of the industry cannot be said to be 'pro-poor' and there could well be long-term benefits to poorer families from restructuring the industry although this will depend to a great extent on the success of government policies in generating alternative employment opportunities.

The action plan agreed at Kingstown also provided that future support for the banana industry should be based on commercial rather than political criteria, allowing prices to growers to reflect quality differences, so as to encourage the emergence of a core group of efficient banana growers. The national Banana Growers' Associations (BGAs) were to incorporate the good governance and management provisions proposed in the consultant's study. It was also agreed that considerable TA support was needed to help bring about the reforms. Finally, other measures were agreed to support

15 The consultancy study was undertaken by Cargill Technical Services.

diversification from banana production into other agricultural activities or even outside the agricultural sector all together.[16]

This strategy was confirmed and refined in subsequent meetings between the donor group and the Prime Ministers of St. Lucia, St. Vincent and Dominica, incorporated into the Castries I Agreement (November 1996) and the Castries II Agreement (January 1998). The plan was to be supported by a considerable increase in aid funds utilising the Stabex 1994-95 transfers (to be disbursed in 1997 and 1998). These totalled 103 Mecu, compared with 22 Mecu under the previous 1992-1993 Stabex transfers.

The Castries Agreements represented a concerted attempt to address the problems of the banana industry (**Box 4**). They were the outcome of a successful policy dialogue between the EC and other donors. The EC supported this policy dialogue through the use of the Stabex instrument shifting its use from general price support to the financing of a specific restructuring programme. The different banana agreements since 1995, from Kingstown to Castries II, reflect the definition of a strategy broadly shared by most key actors.

Box 4: The Castries Agreements and the Use of Stabex Funding

Linking the use of Stabex funds to the implementation of the Castries Agreements represents an example of adapting a potentially unsuitable aid instrument to support the implementation of reform and restructuring policies. The restructuring of the banana industry required urgent action supported by quick-disbursing funds and a programme rather than project approach. The proposed use of Stabex funds as budget support specifically recognises this requirement treating it as a social, economic and public finance problem as opposed to a specific issue relating to banana receipts.

However, the linking of Stabex to the Castries II agreement remains a sensitive issue since Stabex is an automatic mechanisms of support to which the EC is bound by the Lomé Agreement. The EC therefore has only limited scope in placing policy conditionalities on the use of the funds, necessitating a careful and genuine policy dialogue that was not without difficulty. In the case of St Lucia there were robust discussions and a commitment to address the fundamental problems. In Dominica, the government initially tried to negotiate subsidies rather than plan for restructuring. The EC's response was to coordinate most donors, including the BWI, into a common stance over the Castries strategies which were later accepted by Dominica.

Finally, although the objective of restructuring the banana industry was shared by all participants, the modalities of implementing some of the more difficult elements of the strategy have yet to be agreed. Thus, while targeting support on efficient producers is explicitly detailed in the Castries Agreements, there is no specific mention of the timetable for reforms to the BGAs.

A number of general policy conclusions can be drawn from the reform of the banana industry in the Eastern Caribbean:

- Preferential treatments granted to the ACP countries have been an indirect way for providing aid. Market prices of ACP commodities were kept high by quotas. At the same time, Stabex provided funds to compensate ACP countries for adverse price fluctuations. Many of the features of this system are incompatible with WTO rules. Furthermore, there is some evidence that this system was inefficient and inequitable. It was inefficient because the amount of resources transferred to ACP countries is small compared to the distortion induced by higher prices paid by European consumers.[17] It was inequitable,

16 See Stabex 1995 Framework of Mutual Obligations between the Government of St. Lucia and the EC.

17 The preferential treatment of banana costs to EU consumers at roughly five dollars for every dollar transferred to preferred suppliers Borrel B, *Bananarama III*, World Bank, Policy Research Working Papers nr 1386, 1994

because a large part of the quota rent goes to oligopolistic importers and wholesalers protected by the quota system.[18]

- The dismantling of preferences will need to be accompanied by a requirement for aid resources to support restructuring of the industry, so as to facilitate long-run competitiveness and meet the costs of promoting alternative employment opportunities. In such cases, aid should be conditional on trade reform. However, it is important to find an adequate and realistic conditionality approach. In the Caribbean, this was based on the governments' commitment and capacity and the extensive EC involvement in policy dialogue and the innovative use of Stabex funds. In addition, the restructuring of the banana industry should be accompanied by support for diversification, particularly in agriculture, and social safety nets.
- Sectoral restructuring also benefits from general budget support which can respond quickly to crisis situations. This is potentially to be provided by the Stabex facility.

D. Policy Dialogue in Regional Trade and Integration[19]

This section considers the policy dialogue on intra-regional trade and regional integration and cooperation and contrasts it with the international trade dialogue on bananas. The role of the EC in this area can be seen in terms of: (i) its objectives as set out in the Regional Strategy Paper; (ii) the institutional arrangement for pursuing regional integration policies; and (iii) the design and implementation of the trade component of the regional programme.

Objectives

The Strategy Paper for EDF 8 argues that a major constraint on economic development for most of the Caribbean states is their smallness in terms of population and national domestic product and hence the importance of promoting greater regional economic integration. The paper also notes that the generally similar comparative advantage of the small island economies limits the scope and pace of economic cooperation and integration. Consequently, regional integration is seen as a necessary condition to better integration into the world economy and *therefore "support to the integration will be at the heart of the regional programme"*. This is to be achieved by enhancing the competitiveness of local producers while alleviating the negative social impacts of moving to free trade.

Achievement of these broad goals implies that a central implicit objective of the regional programme should be to change the relatively inward orientation of the CARICOM agreement by reducing barriers to external trade and by encouraging member countries to join broader regional agreements. The key issue is the extent to which the EC assistance is likely to contribute to the achievement of these objectives.

Institutional Arrangements

At the policy level, dialogue between the EC and the ACP countries on issues of regional trade and integration is conducted through the mechanism of CARIFORUM. CARIFORUM is an *ad hoc* institution which was set up primarily so that a regional programme could be negotiated with an

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18 A recent study shows that if the retail price of bananas in the UK is 48 pence, the producer country would get 15.1 pence, the import and wholesaler 8.9 pence and the retails 19.1 pence (data for 1989). See Stevens, in Wallace and Wallace (eds.) Policy Making in the European Union, Oxford University Press, 1996, and Borrel B, 1994, *op cit.*

19 Annex B contains a discussion note on some of the issues relating to trade integration.

institution that represents all the Caribbean ACP countries. Its role in facilitating the negotiation of global trade agreements is unclear.[20]

There are clear advantages to having CARIFORUM as a body through which to negotiate the EC's regional assistance programme. However, some concern was expressed that member countries did not perceive CARIFORUM as an institution that represents them and consequently that their ownership of the regional aid programme might be limited[21].

Design and Implementation of the Trade Sector Component

The trade sector component of the CRIP is implemented through the Caribbean Export Development Agency (CEDA). Under EDF 7 the EC is providing an allocation of 14 Mecu to CEDA with a further 2.4 Mecu coming from the governments and the private sector of CEDA member countries. The overall objectives of CEDA are:

- to strengthen the economies of CARIFORUM countries;
- the promotion of regional cooperation and integration; and
- the promotion of exports outside the region.

CEDA was established in January 1996 and replaced the CARICOM Export Development project which had been in operation since 1988. It is involved in: (i) trade information and promotion; (ii) technical assistance; (iii) export training; (iv) trade policy advocacy; and (v) institutional development. It provides services to the private sector on a cost-sharing basis. It also works with the private sector and with governments in the area of trade reform, and in supporting representative organisations such as the chambers of commerce.

A mid-term evaluation of CEDA was being carried-out at the time of the country visit. Its preliminary conclusions were that CEDA has been reasonably successful in supporting firms in their export activities with more than 200 firms utilising its services. However, some of the components of the CEDA programme, particularly institutional support and human capital development, were considered to have been less effective and requiring either redesign or cancellation. More importantly, the evaluation identified the need for a greater focus to CEDA's mandate with it either developing as a development/policy support agency or as a business support agency. In the latter case a greater share of financing should be provided from the private sector. The evaluation also noted the need to increase cost recovery for the services provided by CEDA and only to subsidise costs of advice to private sector clients in exceptional cases.[22]

A further issue not being considered by the CEDA evaluation is the extent to which CEDA concentrates its activities on promoting products which are viable in international markets. The available data suggests that in many cases CEDA targets products which are primarily traded within regional markets and which enjoy high levels of protection. There is thus a risk that, in promoting regional integration, CEDA could end up supporting protectionism instead of focusing on development of the region's ability to expand trade in international markets.[23] This highlights the importance of links between the activities of CEDA and the wider policy dialogue on trade

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20 CARIFORUM was initially intended to facilitate the negotiation of global trade agreements for all Caribbean ACP countries, but this role has not developed as yet. This is in part because of the overlap with the existing CARICOM grouping, and because of the moves towards concluding much larger trade area agreements for the Caribbean basin.

21 These are issues for which time constraints prevented further investigation particularly in discussing the role and operation of CARIFORUM with the its members and with the EC Delegation in Guyana.

22 Steps to increase cost recovery have recently been taken.

23 However, staff in the Commission argue that the intervention is designed to make the selected sectors more competitive.

liberalisation[24]. However, through a series of studies CEDA has contributed to discussions on deepening CARICOM mechanisms and on new trade arrangements (Dominican Republic, Central America). The development of trade relationships with Cuba has also been supported by CEDA.

In some respects the EC's dialogue on regional trade contrasts with that on the banana trade. In the case of bananas, there has been intensive dialogue, strong negotiations, and high quality policy and implementation studies. While the contrast is partly explained by the commitment of governments in the region, in our view policy dialogue on regional trade has not been as strong as it might have been. The creation of the CEDA was not sufficiently linked to a wider regional strategy, and there has been limited monitoring of its impact on economic integration and trade policy.

24 Although in 1992 CARICOM defined a plan to reduce external barriers, but until now very few actions have been taken.

CHAPTER IV. REGIONAL AID IMPLEMENTATION AND MANAGEMENT

A. Introduction

Effective policy dialogue and efficient programme implementation requires strong aid management procedures. This chapter considers how the EC manages its regional aid programme in the Caribbean. Specifically it addresses: (i) the role of the EC Delegations and their relationship with Headquarters; (ii) the operation of the institutional framework of regional organisations with which the EC cooperates; (iii) the procedures for project identification, planning and appraisal; and (iv) the implementation procedures for projects financed under the CRIP.

B. Role of the EC Delegations

The EC has the largest representation in the Caribbean ACP countries through its eight Delegations and two EC offices (staffed by a resident counsellor). The Delegation in Guyana, performs most of the tasks relating to contacts with Headquarters and CARIFORUM on regional cooperation issues and the CRIP. It has a regional adviser to assist the Delegation with the additional policy dialogue and management of funds under the CRIP. Some of these functions are shared with other Delegations responsible for the management of a particular regional programme or project or in dealing with aspects relating to a particular country.

Although the level of NIP financing at country level is relatively small, regional programmes and Stabex increase significantly the workload of the Delegations. This applies particularly to the Delegation to Barbados and the OECS countries which administers aid programmes to and liaises with seven ACP countries, three overseas territories and three DOMs, deals with significant Stabex funds to support the banana industry and general economic diversification, and has responsibilities for several regional programmes.[25]

In the past, Delegations dealt exclusively with co-operation issues, but since Maastricht have become increasingly involved in a wider ambassadorial role that covers all spheres of EC competence. In the Caribbean, this has resulted in Delegations spending considerable time in non-aid issues, such as anti drug-trafficking policies, and in increasing the visibility of EC activities through increased contact with the media.

Administrative Demands on the Delegations

The extensive representation of the EC in the Caribbean should in theory facilitate the policy dialogue with governments and the management of aid programmes. However, in practice this is made difficult by the highly centralised decision-making structure and insufficient financial delegation[26]. Moreover, its financial controls are extensive and extremely time consuming. Several

25 Education, trade, tourism, environment, broadcasting, culture, and postal matters.

26 Some 70% of aid management decisions are taken at the uppermost level of the hierarchy (Commissioner, Director General and Deputy Director General) while the rest are taken by Heads of Delegation (source: Acting Director General, 1997: Reforming the procedures for financing decisions under the global commitment authorisations and for managing TA).

evaluations have commented on the resulting heavy administrative workloads on Delegation advisers that substantially detract from their professional roles.

This administrative burden can be even more damaging for a regional programme which must of necessity include complex management structures and institutional arrangements. As a result professional staff in the Delegations are excessively engaged in administrative tasks rather than dealing with substantive policy issues. In the case of the regional trade and tourism programmes, it was found that the vast majority of communication between Headquarters and the Delegation concerned procedural aspects and that there was relatively little discussion of substantive policy or programming issues.

Backstopping from Headquarters

Delegations rely on Headquarters, mainly to 'push the decisions through the system' and less to provide expert policy advice. It appears that the relations between the Delegation and the different units in Headquarters are not systematic and rely on the relationships established between individuals involved. In some cases, Delegation advisers have difficulties in clearing financial and procedural matters with Headquarters. For example, a Delegation requested a rules of origin derogation for a consultant organising a trade fair in the United States. Headquarters initially rejected this request which was only later approved, after considerably delay, following the intervention of the desk officer.

C. Institutional Framework for Aid Management

In accordance with the Lomé provisions for regional co-operation, ACP governments are allowed to mandate a regional organisation to represent them in matters concerning the regional aid programme financed from the EDF. The EC encourages governments to do so, as this simplifies the management of regional programmes.

Role of CARIFORUM

In the case of the Caribbean, the ACP countries originally mandated CARICOM to act on their behalf. When Haiti and the Dominican Republic, both non-CARICOM members, joined the ACP group in the early 1990s, a new organisation CARIFORUM was established specifically to manage the EC regional programme. In October 1992, Ministers of the fifteen Caribbean ACP states adopted rules of procedure which designated CARIFORUM as *"the mechanism established to coordinate the allocation and undertake the monitoring of resources out of the European Development Fund for the purpose of financing regional projects in the Caribbean"*.

The Secretariat of CARIFORUM comprises a Secretary General (*ex officio* the Secretary General of CARICOM) and a Programming Unit (PU) and is funded from the CRIP. The Secretary General responds to the representatives of the member countries through annual Ministerial Meetings where most countries are represented by their Minister of Foreign Affairs. The decisions in these meetings are consensual. The PU has four staff members and receives administrative support from the CARICOM Secretariat. Its role is to facilitated the preparation and implementation of the CRIP.

The Secretary General is the Regional Authorising Officer (RAO) and signs the Financing Agreements on behalf of the ACP states in the region. He may delegate certain responsibilities to a Deputy Regional Authorising Officer (DRAO), a government or other organisations. For most projects, the DRAO is the local National Authorising Officer. However, there are some exceptions particularly in the case of programmes based in Barbados. Several large programmes also have a Programme Management and Coordination Units (PMCUs).

Programming Arrangements

In the programming of the CRIP for EDF 8 (see Chapter IV), CARIFORUM prepared information for the representatives of the member countries, presented them with drafts, led the consultation process in the region and represented them in the negotiations with the EC.

After the CRIP is signed the CARIFORUM Secretariat becomes responsible for the identification and programming of regional projects. The process typically begins the preparation by the PU of sector discussion paper (usually with assistance of consultants) which is circulated and discussed at regional consultation meetings. For the non-traditional EDF sectors, such as environment and decentralised co-operation, these discussions have tended to wide-ranging and have involved civil society organisations, NGOs, and the private sector. In sectors, such as tourism, which have long been supported by the EC discussion has tended to be more narrowly based involving relevant regional organisations and ministry representatives from the member countries. The outcome of these consultations is the presentation by the PU of a final report and draft financing proposal for consideration by the CARIFORUM Ministers. In the preparation of its substantive proposals the PU tends to rely heavily on the work of consultants and/or on proposals submitted by regional organisations that are to participate in the programme.

In practice CARIFORUM is encouraged to involve the appointed DRAO, the associated Delegation, and the Delegation in Guyana in the preparation of programme and project documentation. Although CARIFORUM is responsible for the preparation of the project document and getting the approval of the CARIFORUM member states, the DRAO and the responsible Delegation must appraise the document and it is the Delegation which is formally responsible for preparing the draft Financing Proposal and for communicating with Headquarters in the elaboration of the final text of the Financing Proposal. After the Financing Proposal has been approved in Headquarters and a Financing Agreement signed, the responsibility for the implementation of programmes and projects devolves to the DRAOs and the appointed Delegations together with the implementing agencies.

Arrangements for Programme and Project Implementation

As soon as the project or programme has been approved it becomes the responsibility of the DRAO and the appointed Delegation to oversee its management. Implementation may involve of a number of regional institutions, each responsible for particular components of the project. For example, in the tourism programme there are four implementing agencies. In order to coordinate the efforts of different implementing agencies, Programme Management and Coordination Units (PMCUs) have been introduced during the implementation of EDF 7 in some of the programmes, including tourism and agriculture and fisheries. They function is as an interface between the DRAO and implementing agency on one side and the Delegation/Headquarters on the other side. They have no decision-making power but ensure that documents that go from one side to the other are in the right form and complete. **Box 5** sets out some of the advantages and disadvantages of the system.

PMCUs are financed from project funds. Staff are recruited from within the Region according to EDF rules and tendering procedures for TA appointments. The EC participates in the selection of the local managers or executive directors. Prior to the introduction of PMCUs, the recruitment of management staff was the direct responsibility of the DRAO and the involvement of the EC was considerably less. The establishment of PMCUs has caused some friction and delays in the implementation of the regional programmes and projects.

Box 5: Advantages and Disadvantages of the PMCUs and the Efficiency and Effectiveness of the Implementation of Programmes

Advantages	Disadvantages
◊ regional composition of the management team which may increase the feeling of ownership of the different countries. ◊ EC involvement may facilitate relations with programme managers and monitoring and control function of the Delegation during the project. ◊ the PMCU can fully concentrate on the implementation of the programme/project as soon as it is in place and speed up decisions and activities from then on. ◊ PMCU has in principle no political links and could be more neutral to proposals than existing regional bodies may be.	◊ TOR for the PMCU need to be agreed between the DRAO, the appointed Delegation and Headquarters. This can sometimes involve a long process. ◊ for recruitment of PMU staff the firm that sends the people has to be registered in the DACON/FIBU system, which seems to disadvantage local firms. ◊ delays in the implementation process caused by the tendering procedures in the setting up of PMCUs. ◊ reduces feeling of ownership and responsibility of the DRAO. ◊ programme implementation depends on the existence of the PMU and its capabilities

The regional bodies responsible for programme implementation can in some cases operate as parallel systems with limited accountability to the individual countries and may undermine national structures. An example of this is the change in the trade development programme between EDF 6 and EDF 7. Initially the programme was elaborated as a Caribbean Export Development Project which worked closely with the national trade promotion organisations and was for its trade policy work linked to CARICOM. Under EDF 7 the responsibility for the programme was transferred to a new regional organisation, CEDA, which no longer works through the governmental trade promotion organisations but instead directly with business organisations.

Assessment of the Institutional Framework

CARIFORUM is essentially an organisation created by the EC to implement its regional aid programme and is supported by EDF funds. Its links with its member governments are considered by some observers to be weak. Consequently, the interest of the governments in CARIFORUM is rather limited, viewing it primarily as a mechanism for managing the regional funds they receive from the EDF. CARIFORUM has had an impact, though as yet a somewhat limited one, at the political and policy level. It has provided a platform for cooperation and stronger links between CARICOM and Haiti and the Dominican Republic, as well as between the two latter countries.

The experience with CARIFORUM as a structure for managing the implementation of regional programmes has been mixed. Although CARIFORUM has succeeded in increasing commitment rates by getting projects approved (with 83% of EDF 7 funds allocated by the end of 1996), there is some evidence that this may have been at the expense of adequate involvement of those organisations responsible for the subsequent implementation phase. Insufficient ownership and inconsistencies between programme design and implementation have been identified as factors behind the delays that have incurred in the implementation of several programmes and the low disbursement rate of the CRIP under EDF 7 (8% of funds committed at the end of 1996). The trade development programme is a case where some implementation problems could have been avoided if the proposals had been reviewed by the Delegation responsible. More generally some observers expressed concern about the transparency of consultation and programming procedures within CARIFORUM.

The argument for a less centralised approach to the implementation of regional programmes is reinforced by this analysis. Among those responsible for implementing the regional programmes there is a widely held view that CARIFORUM represents additional layer of decision-making. Whereas previously implementing agencies directly responded to the appointed Delegation and responsible DRAO they are now partly dependent on action from the CARIFORUM Secretariat. This suggests the need to distinguish between the role of CARIFORUM at the programme planning stage, and the experience in implementation which has often been overly centralised and insufficiently responsive to local conditions.

Finally, because CARIFORUM is considered as a semi-political forum, it is the Ministers of Foreign Affairs that have generally represented their countries in discussions on the CRIP. Because the NAOs and DRAOs are generally drawn from the Ministries of Finance or Planning, there is a danger that this could create a discontinuity in the programming discussions. CARIFORUM is aware of this problem and has indicated it will invite DRAOs to those meetings at which the CRIP is discussed.

D. Project Identification, Planning and Appraisal

The CARIFORUM evaluation provides a good description of the project identification process undertaken for EDF 7.[27] This typically involves three main stages involved: (i) sector studies and project design by consultants; (ii) technical meetings of CARIFORUM ministers; and (iii) consultation meetings, involving relevant or potential implementing agencies before a draft financing proposal is prepared. The PU, which was established under EDF 7, has considerable discretion in the drafting of project proposals. In practice it relies heavily on consultants for undertaking background studies and the preparation of project documentation.

In practice the process of project selection within CARIFORUM was influenced by the desire of its members to see a sharing regional funds between countries. Consequently, rather than focusing on strategic regional issues member countries have tended to come up with a list of projects which are primarily geared to national interests. The EC has responded to this by stimulating policy dialogue at a sector level. However, the entitlement basis of the EDF can place the EC in rather weak position in the subsequent project negotiations. Where it requests changes and improvements to the financing proposal, this often involves long delays, which are then blamed on the EC.

National considerations have also sometimes led to programmes becoming too ambitious and complex, involving various administrations, implementing agencies and different country components. The inclusion of the Dominican Republic and Haiti within CRIP has also had an influence on such decisions. Thus, the recent mid-term review of the trade programme noted that *"the political expediency to create a regional sub-office in the Dominican Republic has resulted in an inefficient operational structure."*[28]

The reliance of the PU on the use of consultants in the design and preparation of projects and programmes also involves some risks. In particular, there is the risk that consultants do not build up sufficient insight on political and implementation constraints affecting the acceptability of the programme or the management of it.[29] It appears that, prior to the establishment of the PU, this was less of a problem since implementing agencies had more input at the identification stage and a greater involvement in the management of consultants. There is some evidence of insufficient involvement

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27 Ramboll, October 1997, CARIFORUM Evaluation Study, p.25

28 Geomar International, February 1998, Evaluation of the European Commission's Caribbean Regional Trade Sector Programme, draft report.

29 An example is the proposal for the regional environment programme which was rejected by the EC because it was seen as a way to top up the Global Environment Fund, as opposed to developing a separate intervention from EC aid.

of the adequacy of the inputs of the implementing agencies, member country government and the EC Delegations in the design and preparation of regional projects.

The procedures involved in identifying, preparing and securing finance for a project often involve considerable delays. In some cases this resulted in proposals becoming outdated and having to be reworked, resulting in further delay.

E. Implementation of Regional Aid Programmes

Analysis of secondary commitment and disbursement indicators shows that regional programmes have faced delays in implementation. The following reasons were mentioned by ACP and EC officials to explain these delays:

- the complex institutional and operational structures arising out of the need to involve he 15 member countries in the management of the regional programme;
- overly complex programme design resulting in an excessive number of component activities;
- insufficient ownership of programmes and consequent commitment to their timely implementation at the level of national governments;
- the limited resources of PU and EC Delegations to monitor implementation;
- variations in the capacities of Delegations to follow up in implementation issues due to pressures of work and the priority being given to NIP implementation; and
- lengthy and bureaucratic tendering procedures for the recruitment of the PMCU.

Procedures and Instructions for Implementation

The administrative and approval requirements in getting funds committed and contracts organised and paid, are very considerable. Recently some changes were made to the decision making and financing procedures.

Tendering Procedures and Practice

Tendering under the regional programmes mainly relates to the recruitment of PMCUs. Subsequent implementation has been done mainly on a direct labour or work programme basis. For the recruitment for the PMCUs the restricted tendering procedure has been applied. Even so, recruitment for the tourism programme the recruitment took 26 months to appointment and another 7-8 months before the team started working in November 1997. The human resources development programme had its contract for the PMCU signed in July 1997 after a tendering process that took 30 months. The agriculture and fisheries programme only launched its PMCU tender in September 1997. The CARIFORUM Programming Unit was established by 'direct appointment' after a selection was made from short-lists provided by the different governments and only subject to approval of Headquarters.

The award of TA and consultancy contracts poses two particular problems. First, tightened implementation controls mean that the duration of contracts is tending to be shortened from 3-5 years to 2 years. However, for some programmes, for example tourism, this period may be insufficient to have achieved measurable results. Second, although local consultants are able to tender for contracts, and the EC formally encourages them to do so, in practice they face considerable difficulties.

Work Programmes

Most programmes and projects under the CRIP are relatively complex involving several elements, have various implementing agencies and involve implementation in several different countries. To allow for the necessary flexibility in the day-to-day planning and management and avoid some of the more time-consuming implementation procedures, these programmes have increasingly been implemented under the 'work programme' procedure. This operates on the basis of advances and principle of sound accounting.

Work programmes are described in the *User's Guide to the Financial Procedures of the EDF*, as 'an alternative to standard contracts for implementing projects'[30]. The Guide states that the *'national administration of an ACP country takes the responsibility for carrying out the works directly through its public works department and using its own staff and equipment'.*[31] It is described as an exception to the principle of competition, as it provides for a derogation from the general principle of open tendering. It is intended to increase efficiency in executing the programme by allowing the project administration greater discretion in applying the EDF rules with less involvement of Headquarters. Financial management is based on a work programme with a yearly cost estimate/budget, both prepared by the Project Director. The programme works on a reimbursement basis. **Box 6** sets out the strengths and weaknesses of the system.

Box 6 Strengths and Weaknesses of the "Direct Labour" Approach Applied to Regional Programmes

Strengths	Weaknesses
◊ Increases speed and flexibility for the implementation of the programme (no DAGs or PMSs are required)	◊ General EDF rules still apply which can undermine some of the advantages. Initially intended for public works within a country, some of the provisions, in particular related to the funding which must be in national currency, do not easily fit with a regional, multi-country programme
◊ Transfers more responsibility for the implementation to the local implementing agency	◊ Implementation by an (inter)governmental body, may lead to the creation or growth of a bureaucracy that is based on aid financing and not sustainable in its own right

The work programme procedures appears to have been successfully applied in the region in order to facilitate the implementation of complex programmes and in getting around some of the more cumbersome EDF procedures. An example is the trade development programme implemented by CEDA. The Executive Director of CEDA acts as Project Director (also called the 'imprest holder'). He is appointed by the RAO and prepares the annual work programme and cost estimates. After the approval of the financing proposal, he is responsible for providing the information necessary to secure the initial appropriation fund. He is then responsible for operation of the fund (making commitments, authorising payment) and for submitting payment orders and supporting documents to Headquarters in order to obtain replenishments.

Monitoring and Evaluation

Most regional programmes have their own Executive Committee and/or Board of Directors with representatives from different countries in the region and different interest groups (government, private sector, NGOs). The PU and EC Delegation are also members of these bodies. Together they take care of the monitoring of the activities in the field. In some cases, for example the CEDA programme, the involvement of these committees in day-to-day management has caused problems where their role extended beyond guiding the programme at a broader policy level.

30 In terms of the Lomé Convention are referred to in the clause relating to the use of 'direct labour' (Art 299).

31 p. 39 of User's Guide

On the EC side the Delegation in Guyana prepares the annual reports on the Regional Programme and gives annual updates on the status of different projects and programmes. In Headquarters staff monitor programme and project development with the Project Information and Control System, which gives information about progress from the early identification phase onwards and the OLAS database which reports on financial advancements.

Procedures for introducing design changes to a project during implementation tend to be protracted since they require the formal agreement of EC and the CARIFORUM.. This can lead to serious problems as occurred in a tourism project in Grenada where the mid-term review called for changes to the project. However, these could not be implemented because the government would not agree with them.

Evaluations are undertaken before the second phase of a project or before a new programme is about to be identified. For projects and programmes under EDF 7 only a mid-term review of CEDA and an evaluation of CARIFORUM have so far been carried out. An evaluation of the tourism programme will start during 1998. Implementation of other components of the CRIP has not reached a sufficiently advanced stage to justify undertaking mid-term reviews or evaluations. The CARIFORUM evaluation has already triggered a number of significant changes including: (i) involvement of the NAOs in CARIFORUM meetings related to the CRIP programming and implementation; and (ii) a requirement to consult with the Delegations in the region in the identification phase of programmes that will be implemented under their responsibility.

Annexes

Annex A: List of People Interviewed

Barbados – EC Delegation

Mr G Gwyer - Delegate
Mr M Dihm - Economist
Mr E Voss - Agriculture Adviser
Mr F Affinito - Economic Adviser
Mr D Todd - Social Adviser
Mr K Gofas - Engineer
Ms R Miller - Associate Adviser
Mr M Langemeyer - Associate Adviser
Mr J Ferguson - Technical Assistant (Bananas)

Barbados - British Development Division

Mr B Thomson
Mr R Cunningham
Mr K Livingstone

Barbados - Other Aid Agencies

Ms D Boyd - UNDP
Ms M Gibson - CIDA
Mr J C Espinosa - UNICEF
Mr M Kamau - UNICEF
Mr D Durant - CDB

Barbados - Regional Bodies

Mr D Clark - University of West Indies
Mr Earle Baccus - Executive Director - CEDA
Mr J L Liranzo - Programme Manager - CEDA

Barbados - Private Sector

Mr D Lavine - Pine Hill Dairy

Annex B: Discussion Note on Trade Integration in the Caribbean

The concept of region in the Caribbean is an exercise in variable geometry, given the number of economic and political agreements, including different and often overlapping group of countries. This Annex focuses on the ACP countries, which are the beneficiaries of the EU Program of Regional Cooperation under the Lomé Convention. These include countries in CARICOM, Haiti and the Dominican Republic, all grouped under the institutional umbrella of the CARIFORUM Secretariat.

One of the main pillars of the EC's regional cooperation strategy is to foster trade integration among the CARIFORUM countries. In order to evaluate the strategy and the associated policy dialogue, it is necessary to review the underlying economic rationale for trade integration between relatively underdeveloped small economies, and whether the evidence available on the Caribbean region is in line with that rationale.

The Issue

The strategy of trade promotion shared by all major donor agencies rests on the assumption that global free trade delivers maximum welfare. Taking this assumption for granted, the question is whether regional integration (RI) is a step forward towards global liberalisation. RI has indeed an ambiguous identity, as it creates at the same time free trade areas and more or less penetrable trade blocks.

A wave of new regional programmes started in the mid 1980s, with the enlargement of the European Community to include Greece, Spain and Portugal; the United States free trade agreements with Israel, Canada and the later implementation of the NAFTA; the reviving or creation of southern trade agreements like the Southern Common Market (MERCOSUR) between the Southern Latin American countries and the Central American Common Market (CACM); and the Association of South East Asian Nations (ASEAN).

As a consequence, a debate on the welfare implications of these agreements flourished.[32] The discussion revolves around two basic arguments: (i) whether the implementation of a regional trade agreement increases or reduces global free trade; and (ii) whether regional agreements are intermediate steps toward global liberalisation or towards a world divided in a number of tight regional blocks. There is, in addition, a critical set of related issues which might be loosely grouped into a social and cultural category, to which we return later. In that the general pressure is towards the elimination of trade protectionism, the starting point of any analysis must be an economic analysis of trade and its welfare effects.

Do regional trade agreements increase global free trade?

The answer to the question depends on whether the agreement creates or diverts trade. Consider three countries, A, B and C, and trade in one good, for example shoes. A and B form a trade agreement. If both A and B do not produce shoes and import them from C, the agreement has no impact on the trade of shoes. If also A produces shoes, but in a less efficient way than C, the agreement may divert trade; B starts importing shoes from A and stops importing them from the more efficient C, as far as the region external tariff more than compensates for A's inefficiencies. Global production shifts from efficient to inefficient producers thereby reducing global welfare. If both A and B produce shoes and C does not, but B is more efficient than A, then, following the liberalisation of trade between A and B, all shoe production moves to B. In this case the agreement is trade creating, and induces a reallocation of resources towards the most efficient producer and increases global welfare.

This example is schematic and does not take into account many of the complexities of the process of trade liberalisation, such as dynamic issues, strategic behaviour of the different countries, impact of trade flows on tax revenues, and so on, but it provides a useful and straightforward framework to look at the impact of trade agreements.

The first case, that of a trade agreement between countries that do not trade and have no reason to start doing so represents the reality of many South-South agreements, especially in Africa, where the share of intra-regional trade remains low and the overall trade share of the region declines.

32 For an analysis of the different facets of the debate, see de Melo J and A. Panagariya (ed.), *New Dimensions in Regional Integration*, Cambridge University Press, 1992, and Anderson K and R Balckhurst, *Regional Integration and the Global Trading System*, Harvester and Wheatsheaf, 1993.

In the second case of trade diversion, there are many examples of agreements, especially South-South ones, where some trade takes place within the region, but mostly for products that are competitive only because of the existence of external trade barriers. These agreements basically implement an import substitution strategy at the regional level.

The third case, trade creation, reflects the case of North-South or North-North agreements. North-South agreements, like NAFTA or the EU agreement with Eastern Europe, pull together countries with very different comparative advantages and factor endowments. Trade is normally redistributed on the basis of comparative advantage. Southern nations benefit as they can specialise in labour intensive activities and they gain cheap access to capital intensive Northern products. North-North agreements foster intra-industry trade based on the exploitation of economies of scales and product differentiation. Intra-industry trade generally takes place between advanced economies.

The 'quality' of the agreement shows in three sets of performance indicators reflecting *sustainability* (how long it lasts and whether it is effectively implemented), *relevance* (the share of intra-regional trade on global trade), *impact on global trade* (share of the region in global trade). According to this classification, only North-North and North-South agreements have performed satisfactorily. Very few South-South agreements have lasted over time or have been fully implemented, have a share of intra-regional trade larger than 4 per cent and have increased their share in total world trade. This outcome is surprising if we consider regions like the EU where roughly 60 per cent of trade is intra-regional and which has moved from 24 per cent of world trade in 1960 to 41.4 per cent in 1990.[33]

Are regional agreements intermediate steps toward global liberalisation of trade?

This question has to do with the relative difficulty of bringing about global agreements like the Uruguay Round in a world where (i) the number of players and the incentive to free ride have increased substantially; (ii) the key player (the US) has partly lost its prominent role; and (iii) new trade practices, like antidumping actions and voluntary trade restrictions, have come into play. If regional groups instead of countries enter into global trade negotiations, these are expected to become much simpler.

It is, however, not clear whether regional blocs are more or less prone to free trade than individual countries. Rather, if the 'our large market is large enough' thinking prevails, the free trade outcome is less likely to become an optimal strategy. The whole issue boils down to the nature of the decision making processes in the regions. Indeed, the final outcome will depend on the preferences of the key players: policy makers and interest groups of the region and outside countries.[34]

The Caribbean Region

Is the structure developed above of any help in analysing the Caribbean region? Let us start with some institutional background. CARICOM was created in 1973 to achieve a single market, but the lowering of trade barriers has been an extremely painful and slow process, not yet accomplished at the time of writing. The common external tariff (CET) was due to be implemented in 1981, in theory turning CARICOM into a Custom Union. However, the CET was not implemented, and countries continued to preserve the right to levy additional surcharges on sensitive products, as the CARICOM treaty lists 123 separate activities exempted from any CET restriction. Moreover, a large share of non-CARICOM products was subject to import licenses.

In 1992, the trade policy stance changed substantially. The CET was to be compressed from 0-45 per cent to a 5-20 per cent by the end of 1998. Temporary surcharges were to replace most quantitative restrictions and all minimum pricing requirements were to be eliminated. Consumption and stamp taxes were gradually to be replaced by the VAT, consequently eliminating cascading effects. At the time of writing this process is not yet accomplished. The CET is well above 20 per cent for many imported products. Licensing and temporary surcharges are still effective and VAT has not yet replaced consumption and stamp taxes.

Does CARICOM fulfil the three quality requirements for a regional trade agreement? First, sustainability: if we have to judge from the number of years CARICOM has been in place, the answer is yes - 25 years of existence

33 de Melo J and A Panagarya, 'Introduction', in de Melo and Panagariya (ed.), *op cit.*

34 Bhagwati J, 'Regulation and Multilateralism: An Overview', in de Melo and Panagariya (ed.), *op cit.*

are certainly a sign of endurance. However, if we judge from the pace of implementation, the outcome is disappointing. The CET is only theoretical: free circulation of goods is negatively affected by licensing requirements and differences in the system of indirect taxation. In the taxonomy of regional agreements CARICOM should effectively be classified as a Preferential Trade Area (the first step on the road of regional liberalisation), rather than as a Customs Union.[35]

Second, relevance: **Table B1** gives us the directions of trade for the CARICOM countries between 1991 and 1995. If we look at 1995 we see that the share of regional exports is almost 8 per cent and of regional imports almost 10 per cent. In this respect, CARICOM performs better than other South-South trade areas in Central and South America. The average share of intra-regional exports between 1985 and 1990 was 4.6 per cent for the Andean Pact, 14.8 per cent for the CACM and 10.6 per cent for the LAIA.[36] Further, the share of intra-regional exports has increased in the 1990s, from 12 per cent in 1991 to almost 18 per cent in 1995. However, if we exclude exports of petroleum from Trinidad and Tobago, the increase in the share is less substantial, from 12 per cent to 13.5 per cent.

Table B1: CARICOM: Direction of Trade, 1993-95 (EC$ million)

	1991		1994		1993		1994		1995	
	Value	%	Value	%	Value	%	Value	%	Value	%
Exports										
CARICOM (1)	1,185.4	12.1%	1,217.2	12.8%	1,406.1	16.1%	1,699.6	15.7%	2,225.9	17.9%
Other Caribbean	845.0	8.6%	954.0	10.0%	737.2	8.4%	681.4	6.3%	875.9	7.0%
NAFTA (2)	4,166.3	42.6%	4,136.4	43.4%	3,957.8	45.2%	5,012.6	46.3%	5,178.8	41.7%
EU	1,982.1	20.3%	1,604.8	16.8%	1,476.5	16.9%	1,742.2	16.1%	2,434.9	19.6%
Others	1,605.2	16.4%	1,623.4	17.0%	1,173.4	13.4%	1,688.8	15.6%	1,716.4	13.8%
Total	9,784.1	100.0%	9,535.8	100.0%	8,751.0	100.0%	10,824,.6	100.0%	12,431.8	100.0%
Imports										
CARICOM	1,129.4	8.4%	1,071.0	8.6%	1,357.4	9.0%	1,571.6	10.2%	1,779.8	9.9%
Other Caribbean	516.8	3.8%	397.0	3.2%	475.9	3.2%	450.0	2.9%	429.0	2.4%
NAFTA	6,228.4	46.3%	6,104.7	49.1%	7,480.5	49..7%	8,169.8	53.1%	9,299.4	51.6%
EU	2,140,.3	15.9%	1,771.3	14.3%	2,145.9	14.3%	1,997.3	13.0%	2,597.3	14.4%
Others	3,441.3	25.6%	3,078.9	24.8%	3,584.5	23.8%	3,193.4	20.8%	3,916.2	21.7%
Total	13,456,.2	100.0%	12,422.8	100.0%	15,044.1	100.0%	15,382.2	100.0%	18,021.8	100.0%

Notes:
(1) Differences in intra regional imports and exports are du to differences in cif and fob prices
(2) Excluding Mexico in 1991 and 1992
Source: CARICOM Secretariat

Third, impact on global trade: the relative large share of intra-regional trade and the substantial differences between many of the region's economies implies that there is some scope for trade within the region. However, if we consider the type of products traded and the barriers to extra-regional imports, it appears that most of intra-regional trade is made of import substitution products where the region does not necessarily have a comparative advantage.

Consider **Tables B2** and **B3**, which rank the major products exported inside and outside the region respectively according to their export share in 1996. We notice that the structure of exports differs substantially in the two cases. Exports outside the region are resource based: natural or processed food products like sugar, bananas, rum and see-food; raw minerals or their derivatives like petroleum, bauxite, iron and steel, inorganic chemical

[35] A Preferential Trade Agreement implies lower tariffs on imports from the partners than from the rest of the world; a Free Trade Area, involves zero tariffs on trade among partner countries but positive tariffs on imports from outside countries; a Customs Union is like a Free Trade Area, but with a common external tariff; a Single Market is like a Customs Union but also involves free circulation of persons, capitals and firms.

[36] de Melo and Panagarya, 'Introduction', *op cit.* Figures are average for the 1985-90 periods

elements. Apparel and clothing is the only non-resource based product which has an export share larger than 1 per cent. In contrast, major exports in the region are made of manufacturing products that, except for some products included in 'Miscellaneous edible products and preparations' and Iron and Steel, are not resource based.

We have no evidence of whether Caribbean countries are efficient producers of the goods traded in the area. However, all those products benefit from very high rates of protection, still in place at the time of writing. In general terms, if we consider a country like Barbados the average unweighted nominal tariff for 2,400 categories was 22 per cent in 1990. If stamp duties and consumption taxes are included, the average nominal rate rises to 41 per cent.[37] More specifically, let us consider some of the best performing products. For pasta, uncooked or unprepared (which is part of Miscellaneous Food) custom duties and surtaxes range from 35 per cent to 100 per cent; for biscuits, from 20 per cent to 106 per cent; for aerated beverages from 25 per cent to 35 per cent; for paints from 25 per cent to 100 per cent.[38] The level of protection granted by such tariffs is high if we consider that on the eve of the Uruguay Round in 1987 the average tariff for the United States was 4.9 per cent and for the European Community 6 per cent.

Table B2: CARICOM: composition of intra-regional exports by major products 1991-96 (EC$ million)

	1991		1996	
	Value	%	Value	%
Paper and Paperboard	65.3	7.4%	110.1	8.5%
Miscellaneous edible products and preparations	51.5	5.9%	89.7	6.9%
Aerated beverages	26.2	3.0%	83.3	6.41
Manufactures of metal	48.5	5.5%	68.2	5.3%
Organic surface active agents	35.5	4.0%	65.1	5.0%
Iron and steel	45.6	5.2%	60.5	4.7%
Cement	29.3	3.3%	52.6	4.1%
Household and toilet soap	34.6	3.9%	48.6	3.7%
Pastry biscuits and cakes	22.7	2.6%	45.4	3.5%
Pigments, paints and varnishes	26.8	3.1%	39.3	3.0%
Apparel and clothing	26.2	3.0%	30.7	2.4%
Plastic packing material	11.5	1.3%	27.2	2.1%
Perfumery and cosmetics	32.7	3.7%	25.0	1.9%
Urea	11.1	1.3%	22.2	1.7%
Disinfectants	27.1	3.1%	22.2	1.7%
Other	385.9	43.8%	509.1	39.2%
Total intra-regional exports (1)	880.5	100.0%	1,299.1	100.0%

Notes: (1) excluding petroleum and other crude minerals and re-exports

37 IMF, *Barbados: Recent Economic Developments*, Staff Country Report Nr 95/32, 1995.

38 CEDA, Caribbean Trade Information System (CARTIS), Trade Regulation Database

Table B3: CARICOM: composition of extra-regional exports by major products 1991-96 (C$ million)				
	1991		1996	
	Value	%	Value	%
Inorganic chemical elements	495.4	10.5%	833,307	12.95%
Apparel and Clothing	324.7	6.9%	731.9	11.4%
Sugar	417.2	8.8%	585.1	9.1
Iron and Steel	305.3	6.5%	514.0	8.0%
Methyl alcohol	165.5	3.5%	331.2	5.2%
Urea	169.8	3.6%	286.1	4.4%
Bananas	479.4	10.1%	277.4	4.3%
Miscellaneous edible products and preparations	20.6	0.4%	91.8	1.4%
Rum	73.2	1.6%	133.5	2.11
Coffee	33.7	0.7%	87.7	1.4
Crustaceans and Molluscs	17.5	0.4%	78.3	1.2%
Orange Juice	0.3	0.0%	64.3	1.0%
Other	2,227.1	47.1%	2,421.7	37.6%
Total extra-regional exports (1)	4,729.7	100.0%	6,436.	100.0%
Notes: (1) excluding petroleum and other crude minerals				

Moreover, many non competing imports used as inputs for manufacturing products were exempt from custom duties, implicitly raising the level of effective protection of import substitution products and creating a strong anti-export bias. Tax concessions for imported inputs for export oriented firms were only introduced in 1993. The anti-export bias was very substantial up to the early 1990s. The effective rate of protection in Barbados in 1991 was estimated to be between 53 per cent to 305 per cent for import substitution products and between minus 30 per cent and minus 42 per cent for export oriented products.[39]

In conclusion, following the classification of regional agreements developed above CARICOM appears to fit well in the second group. Indeed, there is some evidence that the agreement has supported inefficient import substitution and trade diversion rather than trade creation.[40] In this respect, the share of CARICOM in world trade has declined from 0.2 per cent in 1980 to 0.08 per cent in 1993. The decline in oil prices account for part of this effect. All the same, the market share of the region excluding Trinidad and Tobago, which is the oil exporter, falls from 0.07 per cent to 0.045 per cent over the period.[41]

It is now useful to turn to the other issue raised at the start of this Annex: whether CARICOM can be considered a positive step towards overall trade liberalisation. The slow pace of implementation of liberal trade policies does not reflect a clear commitment of liberalisation. The combination of reliance and inefficiency that characterise Caribbean intra-regional trade is also risky as policy makers will probably be reluctant to adopt liberal policy measures across the board. A counterbalancing effect, though, may result from the external environment. Indeed, if we look back at Table B1 we see that CARICOM's trade is dominated by NAFTA, the largest trading partner, with a share of 41 per cent on export and 51 per cent on imports. In this respect, Caribbean countries face a fundamental challenge. If they enter into NAFTA many of their manufacturing activities risk being threatened by more efficient producers. However, the cost of staying out of NAFTA is also high.

39 IMF, op cit., reported from Maxwell Stamp, Export Competitiveness and Market Study in Barbados.

40 A more detailed analysis would need to refer to non-traditional gains from regional integration and trade in services.

41 UNCTAD, Handbook of International Trade, 1994