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REGIONAL COOPERATION FUND IN THE GREATER CARIBBEAN – STRUCTURE AND MECHANISMS TO EFFECTIVELY PROVIDE THE ASSISTANCE REQUIRED BY THE COUNTRIES OF THE GREATER CARIBBEAN

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COMMENTS ON PRESENTATIONS BY DR. SANTIAGO APUNTE FRANCO AND DR. WILLIAM ARROCHA

by

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The feasibility of both the proposed Regional Cooperation Fund (RCF) and the Hemispheric Cooperation Program (HCP) must be assessed in the context of their potential to contribute to the successful integration of the regional economies into the emerging global trading environment. The review of the papers presented on this important topic is therefore best placed within the context of a definition of the indicators of success in trade development at the level of the individual country. For this purpose, I propose to rely on the articulation of this concept by the Development Assistance Committee of the OECD in its April 2001 publication on *Strengthening Trade Capacity for Development*. This definition suggests the following main criteria for assessing success in trade development:

- Export expansion and diversification with positive growth impacts;
- Growth in foreign direct investment with positive balance of payments impacts;
- Expansion and sophistication of productive capacity;
- Positive impacts on employment.

Within this framework, I want to suggest that, based on the indicators presented in the UNDP's most recent Human Development Index and quoted in Dr. Arrocha's paper, even in the relatively successful economies of the Greater Caribbean:

- Export expansion is not necessarily accompanied by product and target market diversification. Indeed, in too may cases rapid export growth is concentrated in a very narrow range of industries and dependent on demand conditions in an equally narrow range of markets;
- Overall declines in unemployment are not necessarily accompanied by desirable corrections in age and gender imbalances as the youth and female populations remain disproportionately affected by joblessness. Skill mismatches also restrict positive impacts in this area;
- Partly as a result of the absence of viable capital goods industries and robust capital markets, the positive balance of payments impacts of foreign direct investment are generally postponed to the medium term at best.

I want to endorse Dr. Arrocha's conclusion that asymmetries have deepened and the room for maneuvering is more limited. Further, in addition to intrusions in sovereignty associated with supply side policy measures and the effects of the more liberal trading environment, weak macroeconomic performance further contributes to undermining the autonomy of the smaller states of the region. Internal and external dynamics thus heighten the challenge of conversion. And, in addition to the traditional macroeconomic asymmetries, the digital divide now threatens to further widen the gaps within individual societies and among economies of the region. All of these factors translate to weak potential to participate in the new economic order. May I add the observation that, while increased public revenues and policy autonomy are valid pre-conditions for maximizing the potential contribution of trade to human development, increased social and productive spending requires in many cases a bolstered capacity to deliver social programs. Beyond Specialized and Differential Trading arrangements, the efficiency of internal economic and social management systems is critical to ensuring that the societies of the region can face the challenges of the emerging global economy. This is an area that should not be left unattended by the new regional cooperation instruments being proposed.

The practical focus of Dr. Franco's presentation is applauded. This should not be surprising when we consider his continuing involvement on the frontline of the FTAA negotiating process. The potential shortcomings of an FTAA without a clear and adequate resolution of the issue of Special and Differential Treatment will make justification and acceptance of the agreement within participating countries a difficult proposition. The presentation on this issue by Dr. Ceara was lucid and right on target. Even with this issue adequately resolved at the negotiating table, beyond the negotiations, new demands would be placed on the institutional capacity of the public and private sector of the smaller states. The political commitment and strategic vision of these states is a major factor in ensuring success in this area – an important issue here is that these assets are unevenly divided across the region and that weaknesses in this area pose a distinct threat to the pace at which individual states buy into and sustain interest in the RCF and HCP concepts. Future program design work should take this factor explicitly into consideration.

The objectives of programs designed to strengthen regional and hemispheric cooperation seem valid responses to the array of problems posed by the asymmetries outlined and the related threats to the sustainability of the participation of the Greater Caribbean region in the FTAA process.

We need to be concerned, however, with the details of the operating implications of the proposition under consideration – the so-called "nuts and bolts" of the cooperation fund. On this score, I note that what is being advocated by Dr. Arrocha, with good justification, represents a departure from traditional development support structures and relationships. His vision of a genuinely broad based ownership and management structure certainly speaks directly to the central objective of the initiative under consideration. A management and equity structure that assembles representatives of the region's indigenous peoples, civil society, organized labor, the private sector and the traditional development financing institutions is novel and worthy of active consideration. I certainly look forward to the operationalization of this concept as a vehicle for moving from the current donor led assistance model to one whose underlying philosophy is one of partnership. As commendable as the burden sharing concept is though, I have some reservations about its potential to bring fresh capacity capital to the region. In particular, the multilaterals may very well opt to reallocate resources already committed to existing support programs to the proposed new fund.

Going beyond the obvious budgetary implications though, I would like to suggest that we take some time to pause and reflect on the opportunity cost of the proposal in the context of the traditional inadequacy of the supply of experienced development management professionals, particularly in the smaller economies of the region. A major operational deficiency of existing technical cooperation programs is the lethargy that routinely attends the disbursement of approved resources – due in no small measure to institutional capacity constraints in beneficiary countries and the cumbersome procedural requirements of some donor agencies. The risk of diverting such scarce skills away from the areas most affected by the asymmetries we are trying to address must be preempted.

Dr. Franco introduced the issue of demand and supply driven approaches to defining the agenda of the proposed cooperation fund and articulated the imperative of a demand led strategy supplemented by adequate information provided by donors based on their experience. To this, I would like to add the observation that the relatively high correlation between weak economies and weak governance structures suggest a weakness within the most affected economies to define their need for capacity building. Traditionally, the focus of capacity building efforts has been on technical and project related deficiencies. However, when taken in the broader sense of the ability of nations (public agencies, the private sector and civil society) to identify development priorities and to chart their own way forward, we could begin to appreciate the role of governance structures in supporting the implementation of demand driven strategies. The fact is that weak governance structures translate to weak capability to define needs, risk and priorities and could thus limit the efficiency of a genuinely demand led approaches.

One of the major concerns with the effectiveness of the traditional development product has been with the demands placed on the limited capacities of recipient countries by the procurement, accounting and reporting arrangements. This observation assumes added relevance in the context of current initiatives by the donor and development lending community to procure convergence of their systems in these areas. I want to suggest that the minimization of this potential burden on the weak development program management structures of small economies in particular be an important inclusion in the terms of reference of those to be charged with defining the modalities of the proposed cooperation fund.

Finally, I want to turn to the risk of duplication. Dr. Arrocha was brutally frank in his conclusion that the disappointing social and economic results from 2 decades of promoting regional integration processes based on free trade provide ample testimony that such eclectic efforts have not helped the people in whose name they were conceptualized and are being financed. While I know that I may be preaching to the converted on this issue, it will certainly be remiss of me not to highlight this risk given my own current involvement in the design and management of a US $5 million loan facility to this country to support trade related capacity building. With the 2005 deadline for the conclusion of the FTAA negotiations less than 18 months away, it is imperative that the proposed regional technical cooperation fund be designed on the basis of a clear understanding of the resources currently being made available by the other actors in the international community (like the IDB) to support trade related capacity building. Complementarity with these initiatives is a most desirable design feature of the cooperation proposed fund. Beyond the evaluation of these parallel initiatives, the next phase of the pre-investment work should also specifically address the economic and practical justification for a new machinery for the management of the proposed cooperation instruments – the question here being whether additional organizational structures are needed to support the delivery of the program objectives or whether these objectives can be effectively met by the re-engineering of existing arrangements.