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NOTE ON FIFTH MEETING OF THE
CARIBBEAN GROUP FOR CO-OPERATION IN ECONOMIC DEVELOPMENT (CGCED)

(Washington, 14-18 June 1982)

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The main objectives of the meeting were: to review the activities under the aegis of the Caribbean Group during the year July 1981-June 1982, and to consider the developmental prospects and requirements of the Caribbean countries at both the national and regional levels. The external funding requirements to be examined included: financing within the context of the Caribbean Development Facility; financing of investments in the countries' project lists; financing of regional and sub-regional programmes; and technical assistance at the national and regional levels.

2. The plenary meeting was supplemented by country sub-group meetings, and a sub-group meeting on the LDC's. A new innovation in the Group was a meeting of commercial banks, convened and chaired by Jamaica.

Situation and Policies

3. As customary, the proceedings commenced with a statement by the Chairman, Mr. Nicholas Ardito-Barletta, the World Bank's Vice-President for the Latin American and the Caribbean region. He recalled the fundamental objectives of the Group when it was formed in 1977,^{1/} and pointed out that the deterioration in external markets for the region's traditional exports had dissipated the expectations that the countries

1/ The objectives were:

- to help the Caribbean countries through the Caribbean Development Facility (CDF) to cope with the balance of payments difficulties which emerged in the mid-1970's;
- to assist them in their individual development efforts over the longer term;
- to facilitate regional co-operation efforts.

of the region would be in a position to carry out adjustments in their economies in the near term. This reduced the possibility for them to move towards balance of payments viability in the foreseeable future. The poor export earnings performance in 1981 not only worsened an already serious balance of payments situation, but also substantially increased their external assistance requirements. As a consequence, there was the need to undertake comprehensive programmes to deal with the immediate financial problems and with the longer term development requirements. Foremost was the imperative need to increase export earnings. However, the short term focus on impending balance of payments difficulties should not preclude some greater attention to project financing and technical assistance requirements over the near to medium term which complement and support the urgent adjustments of the Caribbean economies.

4. The background to the Chairman's comments was that the world-wide recession continued to decrease the demand and prices for the Caribbean countries' key sources of foreign exchange - tourism, sugar, bauxite/ alumina and bananas, in some cases raising questions as to the future viability of the affected industry. Added to this, the growth of non-traditional exports, which had been quite fast during previous years in several countries, slowed down substantially in 1981.

5. The prescriptions put before the Group were:

- stimulation of private sector activity, so that the private sector would play an increasingly important role in promoting output and generating export earnings;
- introduction of basic changes in the structure of incentives (including less quantitative restrictions, low effective production rates, and greater export incentives);
- increase of non-traditional exports, including suitable arrangements to ensure access to external markets as well as complementary investments in related infrastructure and training facilities; and

- adoption of export promotion in an outward-looking economic strategy not only nationally, but also in CARICOM regional arrangements.

6. While there was broad acceptance in principle, the general consensus was that the Caribbean countries would need to study the proposals, especially those for modifying national incentives and regional arrangements. Their concern was that new strategies should not be disruptive of the integration and co-operation processes, but rather should so work as to strengthen them. Further, it was accepted that new policies must be seen in the perspective of the vulnerability of Caribbean countries to adverse economic developments in the developed countries.

7. Stress was also laid on the precarious reliance of many countries on one or two crops for economic survival; and the difficulties that occur because of the vagaries of international markets and weather conditions - especially in the cases of bananas and sugar. In this context, the banana industry problems of the Windward Islands were reviewed in depth. In addition, several delegations (including those of the Dominican Republic, St. Kitts-Nevis and Barbados) noted the serious problems affecting the sugar industry particularly in connection with the world market situation.

Regional Projects

8. Private Sector Development was the focus around which the various policy proposals were structured, and to a large extent dictated the way in which regional activities were viewed. Commencement of operations of the Caribbean Project Development Facility (CPDF) in October 1981 was therefore seen as the most significant initiative that had been undertaken. The purpose of CPDF was to identify and to prepare pre-feasibility studies for private sector investment projects. It was reported that the CPDF had completed its first project,^{2/} and had a pipeline of approximately twenty-four

^{2/} For a plant to produce industrial detergent in Antigua.

active projects. But to assure the CPDF's funding over a period of three-and-a-half years, an additional US\$1.5m. was required. Parallel with the CPDF initiative, the Caribbean Association of Industry and Commerce (CAIC) had been strengthened, and efforts were being made to recapitalize and revitalise the Caribbean Investment Corporation (CIC).

9. For Export Promotion (also presented as a regional project), the objective was seen as the establishment in individual Caribbean countries of efficient export promotion systems. The component parts of this project were that:

- the International Trade Centre (ITC) would undertake institution building and training in various aspects of export promotion;
- reforms of the export incentives systems would be carried out jointly by the World Bank and other international institutions, particularly at the CARICOM level. Accordingly, a joint study^{3/} was to cover export incentives for industry and agriculture, a review of the CARICOM tax harmonization system, and an analysis of relevant experiences within and outside the Caribbean region.

10. Concerning Energy, the UNDP financed report on Caribbean Energy Policy was being updated to indicate the important problems in energy conservation, improvement of existing energy generation systems, the development of indigenous energy sources, and identification of alternative energy sources. This project, estimated to cost US\$3.5m. had not received the required support, the only commitment had been the US\$0.5m. from UNDP. During the deliberations, the Canadian delegation announced Petrocanada International's intention to finance the remaining gap in the regional technical assistance programme for petroleum exploration.

^{3/} By the World Bank and CARICOM, with the participation of OAS, and with financing by those institutions as well as by UNDP and USAID.

11. A detailed report on the Transportation programme was presented, which indicated the progress achieved in the implementation of the St. Lucia-based Shipping Project, and actions that had been taken on the priority capital and technical assistance needs identified in the Caribbean Airport Maintenance and Operations Study (CAMOS), which had been prepared by ICAO.^{4/} The basis for the disbursement of funds pledged by Canada for CAMOS was being worked out, and active disbursements could be expected in 1983/84 budget year.

12. In Agriculture the main CGCED thrust had been towards a project for co-ordinated agricultural research, but there had been no progress on it.^{5/} The new development was the project document submitted by UNDP, for the establishment of a Management Services Delivery Unit within the Caribbean Food Corporation (CFC) for financing by the OPEC Fund (as follow-up to the Caribbean Regional Food Plan project which also had OPEC Fund financing). The Group endorsed an IDB proposal to establish a Task Force to co-ordinate technical efforts for promoting agricultural exports to countries outside the Caribbean. UNDP, OAS and IICA indicated their willingness to participate in the Task Force.

13. In Tourism, the EEC had agreed to finance a European Promotion Programme and to lay the basis for a multi-island tourism package. Also, the IDB-funded study of North American demand for tourism had highlighted the inadequacy of resources for Eastern Caribbean tourism marketing programmes. The necessary total expenditures for these programmes was estimated at US\$15m. over five years and some US\$8m. was still needed.

^{4/} Reference should be made to CARIB/INT 82/3 and CARIB/INT 82/4.

^{5/} In the meantime UNDP had proceeded with its assistance to the CARDATS project for developing appropriate agricultural techniques suitable for small scale farming in the Eastern Caribbean.

14. The regional project Special Problems of the LDC's of the Eastern Caribbean was being addressed initially by establishment of an Inter-Agency Resident Mission (IARM). Its purpose would be to assist those countries to overcome management deficiencies in their public sectors that constrain their absorptive capacity for investment. The IARM's tasks would include preparation of, and assistance in the execution of investment programmes and development policies, as well as the identification of needs and sources of external technical and financial assistance for specific projects. Separately the EEC had placed at the disposal of the OECS funds for the hiring of short-term experts. In addition, the CPDF would actively pursue measures for activating the private sector in a number of Eastern Caribbean states; and USAID had contracted consultants to identify private investment opportunities in those countries, and to engage in an investor-search by means of their international network of accounting and management services.

15. The recipient and donor countries endorsed the terms of reference for the establishment of the IARM; and noted that subject to completion of the arrangements for financing the mission, it could commence operations in August 1982.

Sub-Group Meetings

16. Country sub-group meetings were held for Jamaica, Barbados, Haiti, Suriname, Montserrat, St. Kitts-Nevis, Guyana, St. Lucia, St. Vincent and the Grenadines, Antigua and Barbuda, Dominica, Belize and Grenada. In these meetings, each country outlined its economic programmes and presented its list of national projects for which financing was sought.

17. The total pledges at sub-group meetings for CDF-type financing available for disbursement during the July 1982-June 1983 period approximated to some US\$800m. Although this figure was substantially above the commitments of CDF-type financing made in any previous year, it was still below the US\$1.1b. that was estimated to be required by the region for balance of payments assistance over the twelve-month

period. However, it was expected that a substantial part of the remaining gap should be covered in the special sub-group meetings to take place later in 1982 or early in 1983. These special meetings would be for Barbados, Dominican Republic, Haiti, Grenada and Guyana.

18. In the sub-group on Jamaica, the turn-around of the economic situation was noted, and pledges of CDF-type assistance for Jamaica's current fiscal year reached a total close to estimated requirements. In the related meeting of commercial banks, Jamaica outlined the economic recovery programme and indicated the commercial banks' role as providing some US\$50-70m. annually in loans, and expanded trade credits.

19. The Barbados sub-group noted that in the short-term, priority had to be accorded to a stabilization plan to arrest further deterioration in the balance of payments and public finances. About US\$50m. would be needed for CDF-type financing in 1982/83 in addition to about US\$100m. in new project financing over the next five years. While donors generally expressed support for the programme, it was indicated that further consideration would be given in the special sub-group meeting to be convened.

20. The sub-group meeting for Haiti was the first held in CGCED for that country. Donors expressed understanding and support for the policies being implemented to alleviate the current situation and to deal with long-term structural problems. They also indicated that at a special sub-group meeting to be held in late 1982 they would consider the basis of progress achieved, an expanded assistance programme to Haiti, as well as ways of promoting private investment.

21. In the Suriname sub-group, projects for the mining and agricultural sectors were presented for consideration by donors to complement the Dutch aid remaining for public sector programmes. The donors outlined their ongoing programmes and stressed the need to complement external funds with expanded public sector savings.

22. The Montserrat sub-group noted the steps taken by Government to improve the efficiency of financial institutions, public corporations and marketing services, also the planned three-year rolling public sector investment programme. Donors expressed interest in several projects, notably tourism and water facilities.

23. Attention of the St. Kitts-Nevis sub-group was drawn to efforts to mobilize the country's resources, and critical problems of the sugar industry with its urgent need for financial support, a matter of grave importance given the dominance of sugar in the economy. The donors expressed their concern on the sugar industry crisis and indicated support for several diversification projects.

24. The serious difficulties facing Guyana and the rapidly deteriorating balance of payments situation were outlined to that sub-group. They noted the policy changes for restraining public sector expenditures, the debt rescheduling arranged with commercial banks, and the additional financing of US\$95m. that was needed in 1982. Several donors indicated the likelihood of additional financial support provided that progress was made with implementation of the announced policies and that a stabilization programme was agreed with the IMF. The World Bank announced that subject to there being an increase in the domestic interest rate, the second tranche (US\$5m.) in the Structural Adjustment Loan would be released. The IDB announced that the first tranche (US\$7m.) of its Agricultural Sector Loan was being released. And the EEC indicated that a mission would visit Guyana to prepare proposals for assistance under EEC's stabilization programme for mineral products. A special sub-group meeting is to be convened late 1982 after the Guyana IMF negotiations to consider support.

25. It was impressed on the St. Lucia sub-group that there was urgent need to rehabilitate the banana industry which dominates the economy, in addition to the infrastructural and diversification projects that are necessary to underpin production activities. The donors gave endorsement to the Government's priorities for stimulating agriculture and tourism, and expressed interest in financing most of the important projects.

26. The sub-group meeting on St. Vincent and the Grenadines noted the impressive recovery from the natural disasters, the urgent necessity for assisting the banana industry, the intention of the Government to encourage private investment and to increase public sector savings. Donors expressed interest in all the high-priority projects presented.

27. In the Antigua and Barbuda sub-group it was noted that the growth achieved had been in the face of insufficient and inadequate infrastructure combined with deterioration in public finances and the balance of payments. The urgent priority was water development; and assistance was needed for desalination plant, water distribution, equipment and sewerage. Donor interest was expressed in several projects which are to be examined in early programming missions.

28. The sub-group meeting on Dominica noted the efforts to restructure the economy, the improvements achieved in public sector economic management, and the necessity to repair and extend infrastructure particularly to transport facilities. The IMF announced that Dominica had greatly improved its public finances and had met all the targets under the Extended Fund Facility. Most donors expressed interest in the major productive projects including the banana industry and lime rehabilitation. In terms of new donations, France and United States were notable (the latter to contribute to the road investment programme).

29. The Belize sub-group noted that while there had been some improvement in tourism, agriculture and industry suffered setbacks which resulted in declines in public savings, domestic investments, and worsened balance of payments. Donors endorsed the development thrust on agriculture, with Government's basic strategy to provide economic infrastructure, leaving direct investment in productive projects to the private sector; and then also indicated there would be further discussions during the programming exercises.

30. The Grenada sub-group, after review of the progress, problems and programmes, agreed that a supplementary sub-group meeting should be convened late 1982.

Future CGCED Activities

31. Endorsement was given to a proposal to hold country sub-group meetings for the LDC's (and possibly for other countries) every other year, thereby reducing the number of meetings. It was also decided the Ad Hoc Advisory Committee to be re-activated under the Chairmanship of Prime Minister Compton, would be used as a policy-making instrument during the next twelve-month period to deal with export promotion and the related policy areas. It is expected to meet in the last quarter of 1982, and items suggested for the agenda were:

- i) The export promotion programme;
- ii) Bananas and sugar;
- iii) The Agricultural Development Task Force;
- iv) The Pools of Experts proposals.



