THE UNITED STATES SUBPRIME CRISIS
AND ITS IMPLICATIONS FOR THE CARIBBEAN

YOUTH IN THE CARIBBEAN

THE UNITED NATIONS: ORGANISATION
ABOUT ECLAC/CDCC

The Economic Commission for Latin America and the Caribbean (ECLAC) is one of five regional commissions of the United Nations Economic and Social Council (ECOSOC). It was created in 1948 to support Latin American governments in the economic and social development of that region. Subsequently, in 1966, the Commission (ECLA, at that time) established the Subregional Headquarters for the Caribbean in Port of Spain to serve all countries of the insular Caribbean, as well as Belize, Guyana and Suriname, making it the largest United Nations body in the subregion.

At its sixteenth session in 1975, the Commission agreed to create the Caribbean Development and Cooperation Committee (CDCC) as a permanent subsidiary body, which would function within the ECLA structure to promote development cooperation among Caribbean countries. Secretariat services to the CDCC would be provided by the Subregional Headquarters for the Caribbean. Nine years later, the Commission’s widened role was officially acknowledged when the Economic Commission for Latin America (ECLA) modified its title to the Economic Commission for Latin America and the Caribbean (ECLAC).

Key Areas of Activity

The ECLAC Subregional Headquarters for the Caribbean (ECLAC/CDCC secretariat) functions as a subregional think-tank and facilitates increased contact and cooperation among its membership. Complementing the ECLAC/CDCC work programme framework, are the broader directives issued by the United Nations General Assembly when in session, which constitute the Organization’s mandate. At present, the overarching articulation of this mandate is the Millennium Declaration, which outlines the Millennium Development Goals.

Towards meeting these objectives, the secretariat conducts research; provides technical advice to governments, upon request; organizes intergovernmental and expert group meetings; helps to formulate and articulate a regional perspective within global forums; and introduces global concerns at the regional and subregional levels.

Areas of specialisation include trade, statistics, social development, science and technology, and sustainable development; while actual operational activities extend to economic and development planning, demography, economic surveys, assessment of the socio-economic impacts of natural disasters, data collection and analysis, training, and assistance with the management of national economies.

The ECLAC Subregional Headquarters for the Caribbean also functions as secretariat for the Programme of Action for the Sustainable Development of Small Island Developing States (SIDS POA). The scope of ECLAC/CDCC activities is documented in the wide range of publications produced by the Subregional Headquarters in Port of Spain.
THE UNITED STATES SUBPRIME CRISIS AND ITS IMPLICATIONS FOR THE CARIBBEAN

The bursting of the property bubble – subprime mortgage crisis - in August 2007 in the United States has engendered panic, recession fears and turmoil in the global financial system.

The subprime crisis has sparked a vivid debate among economists and policy makers alike as to the likelihood of a recession that will be much deeper and longer than the 2001 dot-com downturn. The United States economy grew by 0.6% per cent in the last quarter of 2007 down from 4.9 per cent in the previous quarter and hence by definition is not in a recession, i.e. two consecutive quarters with negative growth. However, many economists share the view that a recession is inevitable due to the double nature of the subprime crisis. A recession in the United States will undoubtedly have an important impact on the world economy, despite the continuous rapid growth experienced by emerging economies, particularly China and India. The purpose of this article is three-fold; first, to characterize the current situation in the United States economy; second, to discuss the economic policy responses; and finally, to elaborate on how Caribbean economies may be affected.

On the verge of a U.S. recession?

To define, subprime mortgages\(^1\) are highly risky mortgages issued to borrowers who could not qualify for ordinary or prime mortgages due to low incomes or bad credit history. As a percentage of total mortgage loans, subprime mortgages grew from 2.4 per cent in 2000 to 13.7 per cent in 2006. The easy access to subprime credit fuelled by low interest rates, excessive risk-taking by many weakly supervised financial institutions eager to grant loans, and increased speculative demand pushed up house prices by 80 per cent\(^2\) over the same period, an increase only observed in the immediate post World War period.

The steady and rapid appreciation in house prices allowed borrowers to refinance or sell their homes before they reset to unaffordable rates. This realization of equity from properties stimulated consumer consumption which is the main engine of growth of the United States economy and makes up a massive 72 per cent of GDP. Consequently net equity extraction from residential property spiked from 3 per cent of disposable income in 2001 to 9 per cent in 2005\(^3\). Once interest rates began to reset, mortgage payments increased, in some cases by 30 per cent, to an amount that many borrowers could no longer afford. The number of homes that slipped into some stage of foreclosure in 2007 was 79 per cent higher than in the previous year, and by January 2008 the rate of delinquency on subprime mortgages had risen to 21 per cent. Housing inventory increased drastically, followed by sizeable reduction in house prices and by extension negative equity for both subprime and prime homeowners.

Highly associated with the subprime crisis was a well defined channel of financial intermediaries (brokers, mortgage companies and special investment vehicles) which distributed risks extensively from banks to special investment vehicles, hedge funds, offshore banks and investors. However, since brokers and mortgage companies are only weakly regulated another outcome was a marked increase in abusive and predatory lending - low underwriting standards which included little or no documentation, inadequate credit checks, the removal of down payment requirements, and enticing initial rates on adjustable rate mortgages - which brought about spectacular delinquency rates. As the housing market slowed, the value of mortgage backed securities (Collateralized Debt Obligations) fell sharply and investors were no longer willing to buy securitized credit. Banks were therefore forced to retain on their own balance sheet a higher share of subprime mortgages and in the last quarter of 2007 the financial sector suffered considerable subprime losses to the tune of US$83.1 billion according to company reports\(^4\) and potential subprime losses are expected to spiral upwards (see table 1). For example, United States banking giant, Citibank, reported a US$9.83 billion net loss for the last quarter of 2007 caused by an US$18.1 billion exposure to bad mortgage debt. \(\uparrow\)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount $US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subprime mortgages</td>
<td>$1.3 trillion</td>
</tr>
<tr>
<td>Distressed subprime mortgages</td>
<td>$625 billion</td>
</tr>
<tr>
<td>Foreclosed subprime mortgages</td>
<td>$220 - $450 billion</td>
</tr>
<tr>
<td>Current market value of subprime mortgages</td>
<td>$300-$900 billion</td>
</tr>
<tr>
<td>Per cent subprime foreclosed</td>
<td>15%-25%</td>
</tr>
</tbody>
</table>

\(^1\) US Department of Commerce; http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm
\(^2\) Most subprime mortgages have adjustable interest rates- initial fixed interest rates for 2 years, then the rate is reset every six months based on an interest rate benchmark such as the LIBOR.
\(^3\) American Enterprise Institute for Public Policy Research; http://www.aei.org/publications/filter.all,pubID.26067/pub_detail.asp
\(^4\) The Market Oracle; http://www.marketoracle.co.uk/article 2537.html
\(^5\) BBC News; http://news.bbc.co.uk/2/hi/business/7073131.stm
The unexpected losses and increased pressure on balance sheets have prompted banks to become protective of their liquidity and balance sheet capacity, thus leading to an infamous credit crunch. Hence what began as a subprime mortgage crisis quickly evolved into a credit and banking crisis which threatens economic growth in the United States and has resulted in a global loss of US$7.7 trillion in stock-market value since October 2007.

**Fiscal and monetary policies responses**

In an effort to curb this downturn and avert a recession, politicians and policy makers have taken three measures:

- **Cuts in the federal funds rate**: Since the bursting of the housing bubble in mid 2007 the Federal Reserve has cut interest rates six times from 5.25 per cent in September 2007 to 3.0 per cent on the 30 January 2008, (see figure 1 below). Further cuts are expected if the economy fails to rebound.

  ![FED RATE MOVES](source: federal reserve)

- **Increase in money supply**: Between the months of November to December 2007 the federal reserve injected US$81 billion into the money supply for banks to borrow at a low interest rate; and

- **Economic Stimulus Package**: The United States Congress and the Bush Administration have agreed on a US$150 billion ($100 for households and $50 for businesses) economic stimulus package to increase personal consumption and business investment. Approximately 117 million homes will receive a rebate of up to US$600 for individuals and up to US$1200 for married couples. Couples with children will also get an extra US$300 per child.

Some economists believe the federal fund rate cuts and money supply injection will not work because:

- A recession would have already occurred before the effects of monetary policy can be felt due its lag;

- The credit problems are caused by lenders fear of risk, information asymmetries and uncertainty rather than a money shortage;

- Most of the crunch is due to solvency as opposed to liquidity of many economic agents;

- The liquidity and credit problems affect not only banks but also non bank entities such as broker dealers, money market funds and mortgages which do not have direct access to the federal reserve liquidity support; and

- Monetary policy cannot correct years of irresponsible behavior by regulators and supervisors.

By the same token, others are skeptical about the fiscal stimulus package because it seems too small, given that in the aftermath of the September 11 attacks, the fiscal package amounted to some 6 per cent of GDP, and was of a permanent nature. In contrast, the recent package totaled just over 1 per cent of GDP and is a one-time measure.

An interesting issue that arises is whether Central Banks should not only monitor consumer prices inflation, but also asset prices. Although the Federal Reserve does not have an inflation targeting framework – i.e. should control CPI inflation and promote GDP growth according to the circumstances – it seems that it has not learnt the lessons from the past, particularly the dot.com crisis at the beginning of the current decade. Had it not allowed stock prices to skyrocket, then the economy would not have experienced the problems it faced exacerbated by the September 11 attacks.

But there are many economists that support the view that the economic stimulus package, along with the cuts in the funds rate will have a positive impact on the economy at least by the third or last quarter of 2008. However, new inflation challenges arises due to the booming oil prices, which reached a record high of US$105.10 per barrel on 6 March, 2008.

**Implications for the Caribbean**

Many observers have argued that in recent years the rest of the world has become less dependent or decoupled on the business cycles in the United States.

This argument is supported by the phenomenal growth rates of emerging economies in 2007 (China -11.2% and India – 8.9%) and transitional economies (Russia -7.7%), which have surpassed the rate of growth in the United States- 2.2 per cent. However, the United States remains the principal economic partner of all major countries or regions primarily due to deeper trade and financial linkages.

Against the backdrop of world economic growth, the Caribbean as a whole experienced positive growth rates of 3.9 per cent in 2007, down from 5.8 per cent in 2006, driven by commodity price booms in Trinidad and Tobago and tourism related construction especially in Antigua and Barbuda and Anguilla. Given the trade and financial linkages, it is very unlikely that the region will escape the slowdown in the United States economy, let alone a plain recession. However, though not measurable at this time, the likely channels of transmission are trade, tourism, remittances, finance and foreign direct investment.

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6 http://afp.google.com/article/ALeqM5swwtjRjCvY3Zld9j8eDpqVB9kg
7 http://www.washingtonpost.com/wp-dyn/content/story/2008/01/24/ST2008012401981.html
Trade

United States imports accounts for 15 per cent of total world trade, with 44 per cent of its imports coming from developed countries and more that 50 per cent from developing countries.

The weakening of household consumption and business investment would directly initiate a curtailment of demand in the United States for foreign good and services and this decline in demand could be further exacerbated by a depreciating dollar. The direct impact of a reduced demand will be felt most severely by countries that have a large share of their exports to the United States. In 2006, 51 per cent of CARICOM’s total exports of goods went to the United States of which 93 per cent were mineral fuels and chemicals. Some 90 per cent were from Trinidad and Tobago. This is quite significant for CARICOM countries which are dependent on exports to improve their current account balances and foster productive employment. Presently no major change in import demand, particularly oil, is expected; however towards the second half of 2008 OPEC expects a decrease in demand from the United States which will force oil prices downward. In such a scenario, Trinidad and Tobago will be the most affected country in the region as energy exports represent 89.4 per cent of total exports and energy revenue is 56 per cent of total government revenue.

Tourism

Tourism is a major income earner for most Caribbean countries contributing as much as 15 per cent of GDP in countries such as Barbados and accounts for 60 per cent of service exports of the Eastern Caribbean Currency Union. In 2006, of the 29.9 million United States outbound travelers, the Caribbean received 5.7 million or 19.2 per cent of this market. Stay over visitors from the United States constituted 87 per cent in Bahamas, 74 per cent in Jamaica, 53 per cent in Guyana, 36 per cent in the OECS and Trinidad and Tobago and 24 per cent in Barbados. The negative wealth effect of the subprime crisis and increase uncertainty due to recession fears will lead to reduced travel demand from the United States and hence will affect the tourism sector and tourist related construction. On the contrary, some have stated that the weakening of the US dollar may lead to an increase in travel demand from Europe, which thus far has suffered minimally from the crisis. However, this may not be able to fully compensate for the loss from the United States market and as a result the Caribbean needs to brace for that impact.

Remittances

In 2006, remittance flows to the Caribbean10 totaled US$8.3 billion that is approximately one third of remittances to Mexico- US $24.2 billion11. Within CARICOM Jamaica is the largest recipient of remittances – US$1.9 billion or 18.3 per cent of GDP, followed by Haiti – US$1.0 billion or 21.1 per cent of GDP. Remittance flows to the region are highest from the United States followed by Western Europe. As a consequence of the subprime bust, the construction sector which employs a large number of immigrants has been hard hit. Not only is there a slowdown in construction jobs and job loss, subprime mortgages were particularly popular among immigrants in states such as California, New York and Florida which are the highest remittance states, assuming the Caribbean has a similar pattern to Latin America12. The slower job market and a housing led recession will have a significant impact on remittances as loss of jobs and income will translate into less or no money to remit. The brunt of the decline in remittances will be felt mainly by the rural population in most Caribbean islands who are usually the poorest and most marginalized. This would mean a drastic fall in the standard of living of many people and by so doing will increase the level of poverty and state dependency.

Finance

Thus far the recent turmoil in the United States economy has had little impact on Caribbean financial institutions. Financial assets are less risky than they were years ago and many countries including Barbados are approaching investment grade status, hence improving the perception of sovereign debt. In addition the continuous reduction in interest rates in the United States makes the region attractive to capital inflows which will give rise to a growth in asset prices. However, entities such as central banks, commercial banks and other entities with investments and reserves that are US dollar denominated will experience loss in value and income due to the depreciation of the greenback and lower interest rates.

Foreign Direct Investment

Foreign Direct Investment (FDI) flows to Latin America and the Caribbean reached US$84 billion in 2006 (UNCTAD/WIR, 2007). The offshore financial sector, manufacturing (primary) sector and tourism sector have been the major recipients of FDI. Significant FDI increases were registered in smelting, refining, metallurgy and petrochemicals industries in countries such as Bolivia, Brazil and Trinidad and Tobago. The latter, Jamaica, Guyana, Antigua and Barbuda, and St Kitts and Nevis received the highest amounts of FDI with individual amounts ranging from US$0.1 to US$0.9 billion. While the offshore financial sector may undergo a bit of turbulence, an overall decline in FDI flows to the region is unlikely especially in the primary sector-mining and quarrying which remains very attractive for foreign investors due to the high commodity prices which boost transnational corporations’ profits.

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9 Central Bank of Trinidad and Tobago.
10 Including Cuba and Dominican Republic, excluding Guyana, Belize and Suriname.
11 Inter-American Development Bank http://www.ifad.org/events/remittances/maps/latin.htm
12 Remittances to Latin America, 2004 estimates were 32% from California, 11.9% from New York, 10.6% from Texas and 8.2% from Florida, http://www.cbo.gov/ftpdocs/63xx/doc6366/05-19-Remittances.pdf
THE NEWSLETTER OF THE CARIBBEAN DEVELOPMENT AND COOPERATION COMMITTEE

YOUTH IN THE CARIBBEAN

The World Youth Report 2007 – Young People’s Transition to Adulthood: Progress and Challenges (United Nations 2007), recently released by the United Nation’s Department for Economic and Social Development on the occasion of the 46th Session of the Commission for Social Development in New York, argues that ‘to benefit from young people’s capabilities, societies must ensure that opportunities for youth to be engaged in development processes are nurtured and protected.

Failure to do so can lead to the exclusion and marginalization of youth while depriving societies of their energy, dynamism and innovativeness’ (United Nations, 2007, p. 1). The report further notes ‘that the ability of youth to contribute to the development of their societies can be constrained not only by the lack of capacity among the young, but also by the limited opportunities for participation in development as the global economy and social and political institutions undergo major change.’

As in other parts of the world, young people growing up in Small Island Developing States (SIDS) have to cope with the lack of quality education and employment opportunities since such small states are often not in a position to either entertain high level education systems nor secure easy access to the labour market upon completion of the formal education. While some regions undertake efforts to establish regional training and formation institutions, many young people tend to prefer to migrate to enhance their chances in getting a solid education to give themselves a better start position when entering today’s rather global and dynamic labour-markets. Thus the propensity to move and migrate is one of the highest worldwide among the young in SIDS, with however often negative consequences for the countries they are leaving.

In the case of the Caribbean, youth have been representing a crucial factor for achieving the objective of sustained and sustainable economic growth within a democratic context that guarantees a higher degree of equity and social integration (ECLAC 2000). It is estimated that there are over 8 million adolescents and youth living in this part of the world. Youth and adolescent issues have been on the agendas of Caribbean governments over the last decade, with most of them identifying youth as a target for social development. Demographic projections reveal a slow growth rate for youth populations that is directly linked to the following factors: a rapidly aging population; high mortality rates among youth; and reproductive choices made by informed youth which directly affects family size.

What do we know?

Research on adolescent and youth in the Caribbean region is relatively new and has focused on needs and conditions of high risk youth, issues of crime and violence, reproductive health, HIV/AIDS, underachievement and marginalization.

There is limited empirical data analysis and evaluation of the situation of Caribbean youth, to either underpin the programmes implemented or to inform policy directives.

There has also been extensive discourse in various fora about the predominance of risk factors that increase the likelihood of young people experiencing negative outcomes, and the need for increased protective factors which counterbalance the risk factors. Risk and protective factors exist on three levels:

- the individual,
- the microenvironment (comprising the family, social networks, peers and role models, community and neighbourhood), and
- the macro environment (including mass media, economy, public institutions, cultural and historical background, and social norms on gender).

The discussion contends that there is an urgent need to strengthen the capacity of young people and their support systems since there is escalating evidence of negative outcomes for youth in Caribbean societies. As far as the situation of young people is concerned, the data extracted from the research points to the following trends:

Implications of research findings are heartening as much as they relate to interventions, in that they have all mostly zeroed in on the need for limiting the risk factors and enhancing the protective factors, thereby supporting youth. Given the dearth of empirical data analysis and evaluation of most youth programmes, however, there is still a gap between understanding the needs and challenges faced by youth and how meeting these needs and addressing the challenges can lead to overall development in Caribbean societies.

ECLAC’s research on youth

The United Nations Economic Commission for Latin America
and the Caribbean (ECLAC) and the United Nations Population Fund (UNFPA) undertook a joint regional study during the 2006 to 2007 biennium to analyse the status of youth in a number of Caribbean and Latin American countries in terms of education, employment and sexual and reproductive health using available 2000 census data.

The initiative comprised two studies: (a) ECLAC’s study on The Situation of Youth in Belize, Saint Lucia and Trinidad and Tobago, and (b) UNFPA’s Afro-Caribbean Youth and Reproductive Activity, undertaken in Belize, Costa Rica, Jamaica and Nicaragua.

In terms of school attendance and completion, and attainment of educational qualifications, generally there was a greater likelihood of young women attending school than young men, probably due in part to the high rates of school dropout among the latter group. Also, more females were enrolled in part-time studies compared to males, most of who were enrolled full-time. This can be possibly explained with the fact that many young women, while still in school, are expected to work in the home and care for younger siblings or elderly while their parents go off to work. In spite of these challenges faced by young women in the region, the data for all countries revealed that more of them completed higher levels of education and training than their male counterparts.

Apart from having implications on youth’s sexual behaviour at an early age, and the ways in which they reported using their time every day, these findings also suggest the need for further analysis into the links between education, crime and violence among youth populations across Latin America and the Caribbean, a region known for the highest per capita crime rates in the world. Also important in the analyses would be household structures (in particular the heads of households to which youth belong) and opportunities for decent work available to them (ECLAC, 2007).

The findings on sexual behaviour/practices among youth in Latin America and the Caribbean also shed light on the fact that for the most part, youth are becoming more and more marginalized and vulnerable. Early engagement in sexual activity (often unprotected), engaging in commercial sex, having multiple partners and a general lack of knowledge and awareness of sexually transmitted diseases and their prevention further complicate their situation.

Major challenges

This and other research has revealed a number of challenges that were responsible for affecting the progress of young people, within their respective societies and in the region as a whole. Among these were:

- Increasing high incidence of HIV and AIDS among adolescent and youth population;
- High incidence of sexual, physical abuse and exploitation;
- The trend towards high mortality rates for lifestyle-related diseases;
- Increasing youth involvement in crime and violence as both victims and perpetrators;
- Existing high levels of unemployment and underemployment;
- Glaring gaps in services for adolescents especially in sexual and reproductive health and rights issues;
- High drop out and illiteracy rates;
- Social exclusion.

What’s missing from the research and dialogue?

- Situational analysis of Caribbean youth and adolescent population;
- Analyses of the underlying causes of the problems faced by youth;
- Analysis of the capacity of protective factors that exist to support young people;
- Youth participation;
- Programmes for younger adolescents (10-14);
- Lack of rights based approach to policy and programming;
- Lack of qualitative surveys that throw light upon young people, their characteristics, attitudes, experiences, behaviour and expectations resulting in data to inform interventions;
- Impact studies of various interventions that can be duplicated;
- Recognition of the cross-cutting nature of youth and the need for effective coordination in planning processes.

Caribbean Conference on Children

To enhance the dialogue on youth among Caribbean governments and other critical stakeholders to identify and address the specific policy and programme needs, ECLAC and UNICEF are in the process of preparing a Caribbean Children’s Conference to be convened in the 2nd half of 2008. This conference aims to address some of the relevant issues, such as social protection, access to youth centred quality services and violence against children and youth. Expert panels and various discussion fora will provide a platform for policy makers and practitioners from government, academia and civil society to share best practises and to address jointly emerging new issues affecting the health and wellbeing of Caribbean youth.

References:

ECLAC (2000), Youth, Population and Development in Latin America and the Caribbean – Summary and Conclusions; Port of Spain
In 1945, representatives of 50 countries met in San Francisco at the United Nations Conference on International Organization to draw up the United Nations Charter. The Organization officially came into existence on 24 October 1945, when the Charter had been ratified by China, France, the Soviet Union, the United Kingdom, the United States and a majority of other signatories. United Nations Day is celebrated on 24 October.

The United Nations family of organizations is made up of the United Nations Secretariat, the United Nations programmes and funds - such as the UN Children’s Fund (UNICEF) and the UN Development Programme (UNDP) - and the specialized agencies. The programmes, funds and agencies have their own governing bodies and budgets, and set their own standards and guidelines. Together, they provide technical assistance and other forms of practical help in virtually all areas of economic and social endeavour.

Main Thematic Areas of the Work of the United Nations
A. Peace and Security
B. Economic and Social Development
C. Human Rights
D. Humanitarian Affairs
E. International Law

The Security Council
The Security Council has primary responsibility, under the Charter, for the maintenance of international peace and security. It is so organized as to be able to function continuously, and a representative of each of its members must be present at all times at United Nations Headquarters. On 31 January 1992, the first ever Summit Meeting of the Council was convened at Headquarters, attended by Heads of State and Government of 13 of its 15 members.

Budget
The main source of funds is the contributions of Member States, which are assessed on a scale approved by the General Assembly. The fundamental criterion on which the scale of assessments is based is the capacity of countries to pay. This is determined by considering their relative shares of total gross national product, adjusted to take into account a number of factors, including their per capita incomes. In addition, countries are assessed - in accordance with a modified version of the basic scale - for the costs of peacekeeping operations, which stood at around $2 billion in 2000.

The General Assembly
Composition
The General Assembly consists of all the Members of the United Nations. Each Member shall have not more than five representatives in the General Assembly.

Functions and Powers
The General Assembly may discuss any questions or any matters within the scope of the present Charter or relating to the powers and functions of any organs provided for in the present Charter, and, except as provided in Article 12, may make recommendations to the Members of the United Nations or to the Security Council or to both on any such questions or matters. Article 12 states that while the Security Council is exercising in respect of any dispute or situation the functions assigned to it in the present Charter, the General Assembly shall not make any recommendation with regard to that dispute or situation unless the Security Council so requests. In addition, the Secretary-General, with the consent of the Security Council, shall notify the General Assembly at each session of any matters relative to the maintenance of international peace and security which are being dealt with by the Security Council and shall similarly notify the General Assembly, or the Members of the United Nations if the General Assembly is not in session, immediately the Security Council ceases to deal with such matters.

Structure
The six principal organs of the United Nations are the: General Assembly, Security Council, Economic and Social Council, Trusteeship Council, International Court of Justice and Secretariat. The United Nations family, however, is much larger, encompassing 15 agencies and several programmes and bodies.

Meetings of the United Nations General Assembly in New York 2005

The General Assembly
Composition
The General Assembly consists of all the Members of the United Nations. Each Member shall have not more than five representatives in the General Assembly.
and by the Ministers for Foreign Affairs of the remaining two. The Council may meet elsewhere than at Headquarters; in 1972, it held a session in Addis Ababa, Ethiopia, and the following year in Panama City, Panama.

When a complaint concerning a threat to peace is brought before it, the Council’s first action is usually to recommend to the parties to try to reach agreement by peaceful means. In some cases, the Council itself undertakes investigation and mediation. It may appoint special representatives or request the Secretary-General to do so or to use his good offices. It may set forth principles for a peaceful settlement.

When a dispute leads to fighting, the Council’s first concern is to bring it to an end as soon as possible. On many occasions, the Council has issued cease-fire directives which have been instrumental in preventing wider hostilities. It also sends United Nations peace-keeping forces to help reduce tensions in troubled areas, keep opposing forces apart and create conditions of calm in which peaceful settlements may be sought. The Council may decide on enforcement measures, economic sanctions (such as trade embargoes) or collective military action.

A Member State against which preventive or enforcement action has been taken by the Security Council may be suspended from the exercise of the rights and privileges of membership by the General Assembly on the recommendation of the Security Council. A Member State which has persistently violated the principles of the Charter may be expelled from the United Nations by the Assembly on the Council’s recommendation.

A State which is a Member of the United Nations but not of the Security Council may participate, without a vote, in its discussions when the Council considers that that country’s interests are affected. Both Members of the United Nations and non-members, if they are parties to a dispute being considered by the Council, are invited to take part, without a vote, in the Council’s discussions; the Council sets the conditions for participation by a non-member State.

The Presidency of the Council rotates monthly, according to the English alphabetical listing of its member States.

**ECOSOC – The Economic and Social Council**

ECOSOC was established under the United Nations Charter as the principal organ to coordinate economic, social, and related work of the 14 UN specialized agencies, functional commissions and five regional commissions. The Council also receives reports from 11 UN funds and programmes. The Economic and Social Council (ECOSOC) serves as the central forum for discussing international economic and social issues, and for formulating policy recommendations addressed to Member States and the United Nations system. It is responsible for:

- promoting higher standards of living, full employment, and economic and social progress;
- identifying solutions to international economic, social and health problems;
- facilitating international cultural and educational cooperation; and
- encouraging universal respect for human rights and fundamental freedoms.

It has the power to make or initiate studies and reports on these issues. It also has the power to assist the preparations and organization of major international conferences in the economic and social and related fields and to facilitate a coordinated follow-up to these conferences. With its broad mandate the Council’s purview extends to over 70 per cent of the human and financial resources of the entire UN system.

**ECOSOC at Work:**

In carrying out its mandate, ECOSOC consults with academics, business sector representatives and more than 2,100 registered non-governmental organizations. The Council holds a four-week substantive session each July, alternating between New York and Geneva. The session consists of the High-level Segment, Coordination Segment, Operational Activities Segment, Humanitarian Affairs Segment and the General Segment.

The High-level segment serves as a forum for Ministers and executive heads of international institutions and high-ranking officials, as well as civil society and private sector representatives to discuss key issues on the international agenda in the area of economic, social and environmental development. A new feature of the ECOSOC, mandated by the 2005 World Summit are the Annual Ministerial Review and the Development Cooperation Forum.

At the end of the High-level segment, a Ministerial declaration is adopted, which provides policy guidance and recommendations for action.

**ECOSOC Reform - Strengthening the Council**

Since the establishment of the United Nations (UN) in 1945, the Economic and Social Council (ECOSOC) has been subject to over a dozen proposals for reforms. Some of those proposals have been acted upon, as was the case with General Assembly Resolutions 32/197 and 50/227, both of which responded to proposals prepared by groups of experts in 1975 and 1988, respectively. The reforms have resulted in an expanded membership and new procedures to increase ECOSOC’s effectiveness.

In recent years there has been mounting international support for strengthening the role of ECOSOC both within the UN system of governance and in the governance of the global economy. Another round of important reforms was launched during the 57th General Assembly with the establishment of the Ad-Hoc Working Group on the Coordinated and Integrated Implementation of and Follow-Up to the major UN conferences and summits which led to the adoption of General Assembly resolution 57/270B. The resolution entrusted ECOSOC and its subsidiary organs with an important role...
role in the integrated and coordinated implementation of and follow up to the outcomes of the major UN conferences and summits of the 1990s.

Despite the progress made over the last years in enhancing the efficiency and effectiveness of ECOSOC and in strengthening ECOSOC as a central body of UN system coordination, there continued to be calls for a further strengthening of ECOSOC. At the 2005 World Summit heads of State and government have responded to this call. The World Summit outcome document called both for further strengthening of ECOSOC’s existing functions and strengthening ECOSOC by entrusting it with important new functions, inter alia:

- To hold annual ministerial substantive reviews (AMR) to assess the progress made in the implementation of the outcomes of the major UN conferences and summits of the past fifteen years, including the internationally agreed development goals.
- To serve as a quality platform of engagement on global policies and trends in the economic, social, environmental and humanitarian field and to hold a biennial Development Cooperation Forum to review trends in international development cooperation.

In follow-up to the summit, the General Assembly adopted resolution 61/16 on the “Strengthening of the Economic and Social Council” on 20 November 2006, as a result of informal consultations of the Plenary under the chairmanship of H.E. Ambassador Johan C. Verbeke of Belgium and H.E. Ambassador Cheick Sidi Diarra of Mali. Five key elements of the resolution are:

(i) It set the stage for the AMR which reviews the progress made in the implementation of the UN Development Agenda, including the Millennium Development Goals.

(ii) It also mandates ECOSOC to hold a biennial DCF to review trends and progress in international development cooperation, i.e., issues of aid quality and quantity, and give policy guidance on practical measures and policy options on how to enhance its coherence and effectiveness.

(iii) The 2007 ECOSOC substantive session in Geneva in July marked the first AMR and the launch of the biennial Development Cooperation Forum. Subsequently, starting in 2008, the DCF will be held biennially in New York.

(iv) The Council has also been given the mandate to convene ad-hoc meetings on humanitarian emergencies as and when they are requested.

(v) The resolution also gave a clear message for the Peace building Commission to benefit from the Council’s experiences in the area of post-conflict peace building and the success of its Ad-Hoc Advisory Groups.

Regional Commissions
Economic Commission for Africa (ECA) Economic Commission for Europe (ECE) Economic Commission for Latin America and the Caribbean (ECLAC) Economic and Social Commission for Asia and the Pacific (ESCAP) Economic and Social Commission for Western Asia (ESCWA)

ECLAC
The Economic Commission for Latin America (ECLA) -the Spanish acronym is CEPAL- was established by Economic and Social Council resolution 106(VI) of 25 February 1948 and began to function that same year. The scope of the Commission’s work was later broadened to include the countries of the Caribbean, and by resolution 1984/67 of 27 July 1984, the Economic Council decided to change its name to the Economic Commission for Latin America and the Caribbean (ECLAC); the Spanish acronym, CEPAL, remains unchanged.

ECLAC, which is headquartered in Santiago, Chile, is one of the five regional commissions of the United Nations. It was founded for the purposes of contributing to the economic development of Latin America, coordinating actions directed towards this end, and reinforcing economic relationships among the countries and with the other nations of the world. The promotion of the region’s social development was later included among its primary objectives.

In June 1951 the Commission established the ECLAC subregional headquarters in Mexico City, which serves the needs of the Central American subregion, and in December 1966, the ECLAC subregional headquarters for the Caribbean was founded in Port-of-Spain, Trinidad and Tobago. In addition, ECLAC maintains country offices in Buenos Aires, Brasilia, Montevideo and Bogotá, as well as a liaison office in Washington, D.C.

UN Reform – Investing in the UN for a Stronger Organization Worldwide
The pace of today’s globalized world means that change is a constant, and this is no different for the United Nations. The demands by Member States of the UN and its Secretariat, agencies, funds and programmes have grown enormously. The UN is expected to deliver more services in more places than ever before to the world’s people who are most in need.

Just in the last nine years, the number of civilian and soldiers deployed on peacekeeping missions has increased from 20,000 to 80,000, and the overall financial resources managed by the Secretariat have also doubled in this period to $18 billion. The number of humanitarian and human rights operations have also dramatically increased.

Three landmark reviews propose fundamental changes
World Leaders at the 2005 World Summit requested a number of landmark reports. The first of these was delivered in March of 2006: “Investing in the UN: For a Stronger Organization Worldwide”. It put forward a bold vision of Secretariat management reform for the next three to five years. In the second half of 2006, three further reports elaborate on this vision – namely: the “Comprehensive Review of Governance and Oversight”, the report of the “UN Redesign Panel on the UN Internal Justice System”, and the review by the “High-Level Panel on System Wide Coherence”. All three contain far-reaching recommendations on key management processes and structures.
which, if approved by Member States, could redefine the way the Organization works.

The Comprehensive Review of Governance and Oversight was delivered to the Secretary-General in July by the members of a Steering Committee of eminent experts in public administration. They had conducted an independent evaluation of governance and oversight within the United Nations, Funds, Programmes and Specialized Agencies. Their report recommends a series of improvements that affect both management and the governing structures in place for a number of years. Many of the recommendations – including the creation of a robust Independent Audit Advisory Committee and greater operational independence for the OIOS - are far-reaching and will need close consideration of the General Assembly in the 61st session.

Also in July 2006, a “Redesign Panel” of external judicial experts submitted its review of the UN Internal Justice System. It found that the current system was “outmoded, dysfunctional, ineffective and lacks independence”, and in light of these findings, recommended “a completely new system of administration of justice” designed to be “professional, independent and decentralized”. The Secretary-General welcomed the report, and submitted his response to the report to the General Assembly in the first resumed session of the GA in 2007, following close consultation with staff members and a full costing of the proposed new system.

Finally, the recommendations of the Panel on System-Wide Coherence, a panel co-chaired by the prime ministers of Mozambique, Norway and Pakistan, were presented to the Secretary-General in early November 2006. The report aims to help the UN fulfill its potential in supporting countries reach the Millennium Development Goals, by streamlining the currently large and diverse UN family. It says that the UN must be radically revamped to “deliver as one”, in particular at the country level, where the UN could have a much greater impact if it were less fragmented. The President of the General Assembly is expected to initiate a process of consultation and dialogue on the Panel’s recommendations.

All three reports, if they result in concrete, meaningful reform, have the potential to improve the effectiveness and responsiveness of the Organization. However, given the far-reaching organizational (and financial) implications, it is likely that the recommendations will take several years to implement.

In the meantime, the General Assembly in its 61st session tackled the detailed human resources reform proposals that are outlined in “Investing in People [PDF, 429KB]” (addendum 1 [PDF, 71KB], and corrigendum to the addendum [PDF, 25KB]) – the detailed follow-up report on personnel reforms that was issued in August 2006.

This integrated package proposes fundamental changes that will bring United Nations human resources management system into line best practices. This includes a more proactive, targeted and speedy recruitment system, an approach to mobility that integrates Headquarters with field staff, greater career development opportunities, simplifying and streamlining contractual arrangements and harmonizing conditions of service – particularly for staff serving in hardship duty stations.

UN Reform Highlights Since 1997

Reforming the United Nations has been a priority of former General Secretary Kofi Annan since his arrival in 1997. In the last ten years, understanding that the organization needs to continue improving, the Secretary-General made numerous proposals with significant implications for how the Organization conducts its work, implements its mandates, and manages the funds entrusted to it by its Member States. This has included changes to work programmes, structures and systems, in headquarters locations and in the field.

Much of this agenda has been implemented. However, not all reform proposals were accepted by Member States.

At the 2005 World Summit, the Secretary-General opined to Member States that it was time for “bold decisions” and submitted his report “In Larger Freedom”. On management reform in particular, and the World Summit Outcome Document the Secretary-General was requested “to submit proposals for implementing management reforms to the General Assembly for consideration and decision in the first quarter of 2006.” He subsequently did so in his March 2007 reform report “Investing in the United Nations: For a stronger organization worldwide”.

He also presented his report “Mandating and Delivering” in March of 2006, laying out a framework for updating and analyzing mandates in each of the Organizations’ programme priorities. An electronic registry of mandates was produced which compiled all of the approximately 9000 active mandates that guide the work of the UN.

“Reform” is an all-encompassing term for the many changes that the UN Secretariat has undertaken. This document focuses on those reforms related to management systems and structures, field operations, and partnerships. Further details on such related reforms as governance, system-wide coherence, and relations with civil society can be accessed from the http://www.un.org/reform/home page.

Because of the sheer size and responsibilities of the UN, reform must be categorised as follows:

A. Management Systems & Structures
   - Restructuring
   - Efficiency
   - Accountability & Oversight
   - Peacekeeping, Peacebuilding, Counter-Terrorism, and the Responsibility to Protect
   - Finance & Budget Reforms
   - Procurement of Goods & Services
   - Human Resources Management
   - Ethics and Internal Justice
   - Enhancing Staff Security

B. Field Operations
   - UN Country Teams (UNCTs) and UN Coherence
   - Human Rights

C. Public & Private Partnerships
   - Building alliances with civil society and the private sector

http://www.un.org/reform/home page
Progress of UN Reform

In 2006 when the former Secretary General, Kofi Annan was demitting office he stressed that the UN reform remains work in progress and urged the Group of 77 developing countries to work towards reforming the United Nations on the basis of the “three pillars” of development, security and human rights, saying that while the world body has made progress, much remains to make it more efficient and proactive. He said that when he prepared to take office almost 10 years ago, “I pledged to work to ensure that the resources and facilities of the UN system are effectively channelled towards those who need them most. That means the people of your nations, who, we must never forget, represent the majority of the membership of our United Nations.” “I leave the Organization with the task far from finished... I am equally deeply convinced that we need to build our future on a comprehensive approach – one which gives equal weight and attention to the three fundamental pillars of development, security and human rights. One which recognizes that these three pillars are not only ends in themselves – they are the prerequisites for our collective well-being... they reinforce each other; they depend on each other. I pray that you will keep building on that understanding – not only for the sake of the United Nations, but for the sake of the people of your nations.”

He repeated his long-standing message that “reform is a process, not an event,” adding that despite the challenges ahead he was nevertheless “deeply convinced” that over the past decade the Organization had become more effective, more accountable and better coordinated than ever. In particular, he said developments resulting from last year’s World Summit are “real milestones for change,” highlighting the Peace-building Commission, the Central Emergency Response Fund (CERF), the Democracy Fund, the adoption of a comprehensive strategy to counter terrorism and the setting up of the Human Rights Council. Mr. Annan also stressed the importance of having a better functioning Economic and Social Council (ECOSOC), the UN’s principal body for coordinating and advancing development policy, illustrating this with some sobering statistics, including the fact that nearly 3 billion people subsist on less than $2 a day, the same number as 10 years ago.

“Goal by goal, region by region, ECOSOC members should review progress, correct setbacks, hail advances, win new resources, and urge future reforms so as to help keep the world on track for 2015,” he said, referring to the target date for the Millennium Development Goals (MDGs) that seek to deal with a raft of social ills.

Wrapping up his speech to the Group of 77, which actually includes 132 developing countries and China, Mr. Annan drew attention to the fact that the 30th annual meeting to the foreign ministers was the last time he would address them as Secretary-General before his term ended in December, and he re-emphasized the key issue of reform of the Secretariat to the whole process.

“The UN’s legitimacy and efficacy depend on the integrity and effectiveness of the Secretariat. The Summit Outcome provides a blueprint, and the go-ahead, for extensive management reform to make the Secretariat more effective, more efficient and more accountable. I look to you to help implement that Outcome, which your Heads of State and Government have signed on to.”


Background

The Outcome Document adopted by global leaders at the 2005 World Summit in New York calls for much stronger system-wide coherence across the various development-related agencies, funds and programmes of the United Nations. In addition to supporting current, ongoing reforms at building a more effective, coherent and better-performing UN country presence, it specifically invited the Secretary-General to “launch work to further strengthen the management and coordination of United Nations operational activities.” The Outcome Document called for such work to be focused on ensuring the UN maximizes its contribution to achieving internationally agreed development goals, including the Millennium Development Goals, including proposals for “more tightly managed entities” in the field of the environment, humanitarian assistance and development.

The Secretary-General commissioned a small panel and appropriate research and analytical capacity from inside and outside the UN system, to develop concrete and comprehensive analysis and recommendations in this regard.

Scope

As set out in the Outcome Document, the three elements of the study needed to have slightly different scope as follows:

In the field of Humanitarian Assistance significant progress has already been made in recent years in providing more coordinated response to emergencies at country level. The Outcome Document also commits the GA to the strengthening of the coordination of humanitarian and disaster relief assistance of the United Nations and separate follow-up work is already underway in this regard. However, the growing scale and scope of disasters, particularly natural disasters, underlines the importance of improving the timeliness and predictability of humanitarian funding, in part by improving the Central Emergency Response Fund. In part through a thorough evaluation of lessons learned from recent experience. This part of the study will also need to focus on ways of developing and improving mechanisms for the use of emergency standby capacities for a timely response to humanitarian emergencies.

In the field of Environmental Activities two separate issues need to be addressed. First in the normative area, is a full assessment of how the United Nations can best provide more comprehensive and coherent management and monitoring of the growing range of
multilateral environmental agreements. This should include the development of stronger scientific and analytic capacity in monitoring, assessing and reporting on critical environmental trends. Second is the need for better integration of the environmental perspective within the broad principle of sustainable development in UN country-level activities and in particular capacity building and technology support undertaken by the entire UN system. The GA may launch its own deliberations on the issue of international environmental governance and in particular the role the Outcome Document envisages can support and complement the wider UN system while minimizing overhead costs. As such, the study will need to explore ways of fully exploiting synergies between the normative and analytical institutions and departments of the UN, such as DESA and UNCTAD, and operational agencies. It will also need to address how the UN system works and can best exercise its comparative advantages with international partners, including the Bretton Woods Institutions, the European Commission and other regional actors, donors, civil society and the private sector. While the primary focus will be on increasing impact at the country level, in making concrete proposals for improved management, coordination and effectiveness, it will need to make findings with regard to work both at UN headquarters, regional and country level.

In terms of recommendations, the study should seek to identify a short, medium and longer-term vision and benchmarks, thus laying a platform for an actionable plan of implementation rather than open-ended proposals. Change may need to occur in phases, with first initial proposals for rationalization of the current system without major structural changes; then proposals for preliminary restructuring of the current system to minimize duplication and overlap; and finally recommendations for comprehensive revitalization and restructuring of the UN operational role in environment, humanitarian and development work.

Recommendations of the Report
The UN has been seen by some to fail in delivering some of the vision and mission that was expected of it. There are many reasons why the UN has become fragmented and weak: from a lack of buy-in and mixed messages from capitals states between capitals and representatives in various bodies, to a proliferation of agencies, mandates and offices, creating duplication and dulling the focus on outcomes, with moribund entities never discontinued.

Even when mandates intersect UN entities tend to operate alone with little synergy and coordination between them. The UN system now encompasses 17 specialized agencies and related organisations, 14 funds and programmes, 17 departments and offices of the UN Secretariat, 5 regional commissions, 5 research and training institutes and a plethora of regional and country level structures. The loss of cohesion prevents the UN from being more than the sum of its parts.

For example, at the country level, operational incoherence between UN funds, programmes and agencies is most evident. More than one-third of UN country teams include 10 or more UN agencies on the ground at any one time. Several teams include 20 or more. This has led to incoherent programme interventions and excessive administrative costs. It also burdens the capacity of developing countries to deal with multiple agencies.

Of 60 countries analyzed by the Panel, 17 country teams had an annual budget of less than US$ 2 million per agency. Nor does the normative and analytical expertise of non-resident agencies sufficiently support UN country team efforts. Without authoritative leadership by the UN Resident Coordinator, and system-wide ownership of the Resident Coordinator system, incentives for better coordination remain limited.

Signs of fragmentation are also apparent at the regional level. Regional offices of different UN agencies are scattered in different locations, and definitions of regions can differ from one agency to another. In some regions strong regional and sub-regional institutions...
either exist or are rapidly evolving while others have strayed from their original mandates. This calls for a review of the UN’s regional roles and settings, including the Regional Commissions, to address regional needs, avoid duplication and overlapping functions and seek a coherent regional institutional landscape.

More synergy is also needed at the global level. In some sectors, such as water and energy, more than 20 UN agencies are active and compete for limited resources without a clear collaborative framework. More than 30 UN agencies and programmes have a stake in environmental management.

On specific issues, such as internally displaced people, several agencies have a legitimate interest, but none has a clear lead. Merging UN agencies does not always lead to better outcomes. But we believe there must be a significant streamlining of UN agencies so that the UN can “deliver as one”, reduce duplication and significantly reduce the burdens it currently places on recipient and donor governments, without diluting the performance and expertise of individual organizations.

Inadequate and unpredictable funding of the system also contributes to fragmentation, undermining the multilateral character of the UN. The exponential growth of extra-budgetary (non-core) versus core resources has encouraged supply-driven rather than demand-driven approaches to assistance, undermining the principle of country ownership.

Lack of donor coordination and competition for non-core resources among UN agencies squander significant time and effort on fundraising, undermining the UN’s ability to make long-term strategic decisions that would deliver more effective results. Nor does the UN have a common system for its overall development funding or for measuring results transparently and systematically.

The above represented some of the main arguments for the need for urgent reform. It was agreed that the international community has a duty to ensure that the UN is fit for purpose, reinvigorated and strengthened to meet the global challenges and diverse needs of an ever more interdependent world. To do this, the UN must be coherent and flexible enough to respond to demands for a variety of policy and operational services. A one-size-fits-all approach would be inappropriate.

As stakeholders in the UN system, there is a responsibility to agree on and present ambitious recommendations to improve the UN’s coherence so that it delivers as one in the areas of development, humanitarian assistance and the environment. The most radical decision would be to maintain the status quo. However, it was believed that this would represent a victory for inertia and parochial, short term institutional and national interests to maintain a system that has grown over time, and which no one facing the challenges we do today would design as it is. The Panel recommended that reform to improve the coherence of the UN system must be underpinned by clear principles as follows:

National ownership and people-centred approaches: National sovereignty and national ownership of development plans must remain the bedrock of effective development. The system must be realigned to a demand-driven approach and to programmes delivered as close to beneficiaries as possible.

Core comparative advantage: The UN needs to be flexible enough to respond to the operational and policy needs of all countries and to advocate global standards and norms. In each country it should focus on where it is best able to provide leadership—and withdraw from areas where it does not—to deliver results in response to country programme needs. The value added of the system lies in harnessing the full array of capabilities under its umbrella in an integrated way, not in seeking out narrow niches.

Maximum effectiveness and accountability: Change must prepare the UN to address new challenges, and improve its performance measured by outcomes. Responsibility and authority must be clarified, and staff given the means to deliver on their mandates and be held accountable for them. Efficiency gains must be pursued through better business practices.
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Strategy and Results Framework for stakeholder consultations, adopted a 2001 CARICOM, through broad based 

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