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Regional co-operation in the Area of Border Integración: A Perspective from the CARICOM Development Fund

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REGIONAL CO-OPERATION IN THE AREA OF BORDER INTEGRATION

–A Perspective from the CARICOM Development Fund

Lenox Forte

Border integration within the CSME has two main characteristics one relevant to the continental Members and the other for the island states. Border integration in the CSME cannot be divorced from economic integration due to the significance of the Caribbean sea in the economic geography of CARICOM. The CDF, established to support economic integration through national interventions will therefore play a role consciously or otherwise in border integration through its function in supporting the competitiveness of CARICOM SMEs and defined infrastructure presently in transportation. Competitive businesses, good transportation infrastructure an efficient public sector with adequate fiscal space would allow for resilience to external competition and the willingness for disadvantage CSME Member States to pursue the liberalisation agenda inherent in the Revised Treaty of Chaguaramas.

In CARICOM there are two types of geopolitical borders. There are the land borders between CARICOM Members on the continent and between CARICOM Members and Members of various Latin American Integration groupings. In addition there are borders among the island states and the Caribbean Sea as well as the interesting case of a land border between a CARICOM Member and a CARIFORUM Member on a shared island. These differing geopolitical borders introduce a myriad of issues which are addressed by an equally large number of agencies and institutions. The CARICOM Development Fund with its membership drawn from CARICOM has a limited but significant role in supporting regional co-operation and border integration. Regional co-operation at the borders require national economies to generate income to create the fiscal space to provide the requisite institutional and administrative support to effectively manage the movement of factors of production and final goods and services across these boundaries. CDF through its support with financial and technical assistance for disadvantaged countries, regions and sectors by supporting resilience in the face of various economic shocks, over time can help in creating some fiscal space in these countries. In addition through its work and resource mobilization programmes, CDF also will play a part in regional co-operation.

The story of integration within CARICOM was built on the theory of international trade with the establishment of CARIFTA until there was the recognition that economic development, functional co-operation, governance and security all were necessary ingredients to the construction of a community of integrated island and hemispheric states. The realization of development in CARICOM therefore, although dependent on trade, cannot rely only on that factor. The realization that trade was only one necessary factor in development was accompanied by the establishment of CARICOM through the Treaty of Chaguaramas, (1973)¹ which supported the development of freer trade within the grouping², supported by an agenda for the co-ordination of foreign policy and functional co-operation³. The Treaty of Chaguaramas was subsequently revised to include a stronger element of economic development as the CARICOM Single Market and Economy (CSME) with a full trade liberalization agenda⁴ including provisions to advance international competitiveness as well as sectoral and infrastructural development⁵.

The progress of integration within the CSME process however, was challenged inter alia by external economic developments as well as internally by issues of sovereignty and the appropriate governance arrangement to accelerate implementation. Co-jointly, a two phased undertaking evolved namely the economic integration of six of the smaller states into the Organisation of Eastern Caribbean States Economic Union⁶ – The OECS Economic Union - within the integration of the larger grouping – CARICOM – which consisted of the OECS Union and the four More Developed Countries (MDCs). In this context, there is an evolving strengthened agenda for intra-regional co-operation within the OECS sub-regional grouping. Inter-regional co-operation between the sub-grouping of Less Developed Countries (LDCs) and the other Members of CARICOM had been set out in the Revised Treaty⁷ as a regime of

¹ Treaty of Chaguaramas, CARICOM Secretariat, 1973

² Article 4; *ibid*

³ *ibid*

⁴ Revised Treaty of Chaguaramas; 2001; Chapter 3

⁵ *ibid*, chapters 4 through 8

⁶ Revised Treaty of Basseterre; 2011

⁷ Revised Treaty of Chaguaramas; 2001; Chapter 7

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differential treatment for the former by the latter. In the Revised Treaty however, inter-regional co-operation as differential treatment was defined between disadvantaged countries – Members of the OECS, Belize and HIPC Countries – and the MDCs. The concept of disadvantaged as opposed to LDC recognized that countries experience both pre-existing disadvantages arising from limited resources as well as vulnerability to external shocks—weather, international trade and financial as well as the impact of the liberalization agenda inherent in the CSME process.

The CARICOM Secretariat in an institutional audit⁸ on progress with the development of the CSME determined that the implementation of the integration process for the CARICOM Single Market (CSM)⁹ elements although ongoing was still incomplete. Its review¹⁰ during 2009 indicated that only 71¹¹ per cent of the required actions to complete the implementation of the CARICOM Single Market had been implemented. Subsequently, two studies¹² were launched, the first of which determined with the assistance of the final beneficiaries the factors required to promote internal integration of the LDCs with the MDCs. The second study, building on the first, prioritized and aggregated sixteen (16) identified constraining factors into three main areas for action:

Completion and full implementation of the administrative compliance rules for the single market;
improvement of the state of competitiveness of CARICOM firms; and,
increasing the interdependence of the CARICOM economies.

The study also provided an initial estimate for the programme valued at US\$283 million which would consist of the delivery of both technical and financial assistance to address the identified constraints to development. The Thirty-Fifth Meeting of the Council for Trade and Economic Development (COTED)¹³ initiated the process of operationalizing that plan with the assistance of the CARICOM Secretariat. At the completion of the exercise, regional institutions will be matched with specific tasks in the process and will be required to mobilise and allocate resources to achieve their respective assignments. The CDF has been identified as one of the key institutions in this process given its mandate.

The concept of the CDF was formulated to assist the resource poor members of the Caribbean Community (CARICOM) with technical and financial assistance to integrate into the CSME so they could better participate in the highly competitive international economy. In addition, the CDF was set up to assist disadvantaged regions and sectors in CARICOM.

⁸ The audit was mandated by the Twenty-Ninth Meeting of the Conference of Heads of Government of CARICOM; Antigua and Barbuda; July 2008

⁹ The Conference of Heads of Government of CARICOM had decided to defer implementation of the single economy in favour of advancing the single market.

¹⁰ Presented at a Convocation on the CSME; Barbados; 2009

¹¹ Programme Manager; CSME Implementation Unit; 2012

¹² The two studies were “Consultancy to Support the Full Integration of Belize and the OECS in CARICOM; CISP/CSME/RESULT 1.9.1.1/SER.10; Owen S. Arthur and Consortium; February, 2010 and Circumstances Restricting the Full Integration of the OECS and Belize into the CSME; CISP/CSME/R1.9.2/SER10.11; Symbiont Consulting and KPMG; AUGUST, 5 2011

¹³ Thirty-Fifth Meeting of the Council of Trade and Economic Ministers; Guyana; 2012

CARICOM determined CDF, during its first contribution cycle, should address the integration of the disadvantaged countries into the CSME.¹⁴ The observed progress towards the establishment of large trading blocks in the world led to the view that following a trade model based on the theory of the second best, where there would be large customs unions, the world will settle on a fully integrated world economy where traditional theories of international trade premised on perfect competition will answer the questions of production, distribution and welfare in national economies – the regionalism vs multilateralism discussion. CARICOM and especially its smaller resource poor members would be unable to survive and would be faced with harsh economic adjustments to fit into a multilateral system based on free trade unless its entry was managed. High trade and non-trade barriers to entry which, would have to be dismantled with expected adverse implications for the socio-political organization of those societies, required that pre-emptive action is taken to minimize anomie. The thinking was to utilize the strategy of economic integration at the OECS sub-level which, with support from the wider CARICOM would remove internal barriers to allow for economic activity to be exposed to competition within the protective walls of CARICOM. Once achieved, the protective walls of CARICOM with the international Community would be lowered as it integrates with the rest of the world.

The CARICOM Development Fund, was set out in the Revised Treaty of Chaguaramas Establishing the Caribbean Community including the Single Market and Economy¹⁵ (Revised Treaty) as a regional development fund¹⁶ which was one of the instruments which would be used to assist the countries defined as disadvantaged in the Revised Treaty¹⁷ to be able to lower their protective barriers to free trade while becoming competitive. The strategy¹⁸ consisted of temporary derogations and a facility to provide technical and financial assistance to facilitate the transition. The regional development fund was subsequently operationalised as the CARICOM Development Fund in November 2008¹⁹. The organization was established with two divisions – Structural and Cohesion Funds Division and Regional Development Division. The former Division was geared towards assisting in the mitigation of the impact of pre-existing disadvantages while the latter was to address the required restructuring of the disadvantaged countries to make them competitive in the global economy.

During its first contribution cycle, 2008-14 the CARICOM Development Fund has four thematic priority areas viz:

- reduction of regional disparities;
- promotion of investment;
- enhancing competitiveness; and,
- reducing the impact of the CSME.

¹⁴ The contribution cycle is normally for four years, but may be changed by the Board of the CDF as appropriate. The CDF Board extended the first cycle by two years in recognition that Member States did not have access to the CDF during its first two years.

¹⁵ CARICOM Secretariat; 2001

¹⁶ *ibid*; Chapter 7

¹⁷ *ibid* Chapter 1

¹⁸ *ibid* Chapter 7

¹⁹ Additional information on the formation and structure of the CDF could be found at www.caricomdevelopmentfund.org

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It was determined that emphasis should be placed on the development of human capacity, increasing the competitiveness of the SME sector and providing support for the completion of the legal and administrative structure of the CSME should be the main measures which will be pursued within the set priorities. CDF, in the provision of concessionary financing developed a negative list for its lending programme. Thus CDF does not lend for sunset industries, working capital or provide venture capital since there are other agencies better suited for these purposes. Within this context the CDF is prepared and has commenced the pursuit of collaboration and co-operation with regional groupings as well as institutions.

The agenda for disadvantaged regions and sectors is likely to come to the top of CDF's workplans during the next contribution cycle. CDF has commenced work on how to measure and objectively identify disadvantaged regions and sectors. This work is being addressed in its Cohesion programme which is challenged by the dearth of secondary data. The concept of cohesion being addressed has been expanded beyond economic disparities to include administrative and social disparities between and within Member States. CDF has reached out to South American and European partners which themselves are dealing with the integration of regions to the economic centres of operations. Requests have been made for technical assistance in the area of policy design and measurement in this area, but responses have been slow.

At inception, the CDF approach was to rely on CARICOM to provide resources for its programmes and to work with Member States to determine their demands for assistance. CARICOM Members committed to make financial contributions to the CDF in contribution cycles of four year durations. Further, the Community established a High Level Resource Mobilisation Team consisting of Ministers of Finance to garner resources for the CDF from regional and international development partners. The results of this approach were mixed but generally below expectations as the international financial environment supporting development financial assistance deteriorated. On the demand side, CDF in compliance with the Aid Effectiveness Doctrine²⁰ shifted from the project selection approach to the programmatic and results based approach that is premised on beneficiaries taking ownership of project selection, monitoring and evaluation. This meant that the horizon of the CDF programmes would have to be multi-year and directed to the achievement of programme outcomes instead of limited to project outputs. This shift in emphasis resulted in a convergence in the approach to financing of the CDF such that it had to seek to directly initiate its own mobilization strategy which included co-operation and collaboration with institutions and development partners with similar long term planning horizons.

An alternative model to the financing of the CDF's programmes envisaged a one-time contribution from Member States to a capital fund which in collaboration with the Caribbean Development Bank (CDB) could be utilized as a financing source for an interest subsidy and a concessionary loan programme. The logic was that interest subsidy resources from the CDF can be utilized to reduce the interest cost of appropriate loans offered by the CDB to Members of both institutions. This approach it was argued would have amplified the impact of the CDF resources while lowering the cost of capital to the final

²⁰ Paris Declaration on Aid Effectiveness; 2005

beneficiary²¹. The slow erosion of the initial capital contribution of the Member States combined with an effective investment programme for unused balances as well as reflow from the CDF loan resources would delay the need for new contributions for approximately sixteen years. The CDF has been in discussion with a regional financial institution on the issue and both institutions are examining the concept as a possible option for collaboration.

In the inter-regnum, Member States in CARICOM are constrained by finance moreso now as the fiscal space becomes even more restricted from deteriorating external accounts constrained by excessive external debt profiles. It is felt that consideration should be given to using regional forums to promote up the international development agenda the need for international attention to be paid to address the rising debt burdens of small vulnerable states. In these circumstances, the exchange of real resources in the form of relevant and appropriate technical experts can substitute for hard to find financial resources while lifting the productivity of indigenous labour. There are challenges with this approach which though difficult, are not insurmountable such as the social impact of introducing different ethnicities into small societies with the potential for misunderstandings from the difference in cultures. In addition, there may be issues agreeing on the valuation of the assistance.²²

The High Level Mobilisation Ministerial Team established by CARICOM had pursued several initiatives with development partners. These initiatives led to contributions valued US\$3.8 million being received from the Governments of Australia, China, Finland, Luxemburg, CARTFund and the European Development Fund. In all cases, the contributions were financial but were discrete amounts with some promises for continuation, without any indication on what would trigger additional contributions. What became clear during the mobilisation effort however wasthat CARICOM was considered middle income on the basis of national income per capita, with a consequent lower priority as a recipient for development assistance. This classification based on the single measure ignores the risks and vulnerability of the region. CARICOM is exposed to hurricanes, earthquakes, floods, volcanic eruptions as well as rising sea levels, which in an instant can reverse the economic progress made. If per capita income is risk weighted, the welfare status of the region would be much lower and a higher candidate for assistance.

Changes in the financial condition of CARICOM Member States as well as larger development partners have caused the CDF to re-calibrate its financing strategy to be prepared to access more technical assistance for distribution than was initially envisaged. Delays in the process of implementing the CARICOM Single Market and Economy (CSME) have led to the CDF receiving more requests to address pre-existing disadvantages rather than the impact of liberalization on the smaller economies. Arising from the reduced likelihood of mobilizing significant financial resources, the CDF has also commenced its engagement of other Community Institutions as well as hemispheric partners to support its programmes.

²¹“The CARICOM Regional Development Fund: Economic Sense or Political Expediency?”; Professor Havelock Brewster;
[The Integrationist](#)

²²In the sharing of technical expertise, CDF has sponsored a project to set institutional arrangements to share scientific and research capabilities of the MDCs with the LDCs in CARICOM.

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Discussions have commenced with the University of the West Indies, the Caribbean Community Climate Change Centre and the CARICOM Regional Organisation for Standards and Quality as a partial response to that development. In addition, to CARICOM institutions, CDF has been in discussions with the Governments of Argentina and Chile to support CARICOM through the CDF with technical and financial resources. These discussions were all quite promising and will be developed into operational plans with the finalization of CARICOM's plan for the integration of the LDCs into the CSME due for presentation to COTED during the fourth quarter of 2013. At the level of Member States, there has been a number of Agreements with trade preferences signed with members of the various Latin American Integration Movement viz. Venezuela (1992), Costa Rica (2003), Columbia (1994) Dominica Republic (2001), Cuba (2000), Brazil and recently the United States. Implementation of these Agreements has continued to lag behind expectations. Several reasons have been proffered for this outturn including lack of political will to promote nationally the processes to make them a reality, absence of real progress with competitiveness, technological innovation and export diversification thereby forming the basis of beneficial trade²³.

The CDF in order to manage the anticipated resources from regional co-operation is pursuing changes in its modus operandi. The CDF's governance structure was established to ensure inter alia, that development policy to address shocks arising from the integration process remained squarely in the hands of the people of CARICOM. The eight member Board allowed voting only from the two members representing the MDCs and the two for the LDCs, the representative of the region's private sector and the Chairperson. The remaining two members representing the CARICOM Secretariat and the OECS Secretariat are nonvoting. There are no representatives from third countries on the Board. CDF is contemplating a system of trust funds to allow external partners to contribute resources to CDF management through a trust agreement with procedural rules which can be independent from that of the CDF.

Despite its financial challenge, at end April 2013, CDF had approved and committed US\$35.5 million of the US\$94 million under its management to six of the eight beneficiary member states. Of the approved amount, 46.1 per cent was allocated to enhancing competitiveness in the SME sector, 32.0 per cent to reducing regional disparities and 22 per cent to promoting investment. Interestingly, but not surprisingly, no requests were received to address the impact from the CSME. Concessionary loans which account for 74.1 per cent of the approvals have been to the public sector for specific infrastructure development and to national development banks for onlending to SMEs in the private sector. Grants which absorbed 25.9 per cent of commitments, were mainly for the public sector in support of identified national priorities. Of the grants disbursed, the sum of 300,000 euros contributed by the Government of Finland have been committed to assist SMES in the process of

²³ Promoting Economic Links Between the Integration of Latin America and the Caribbean: A CARICOM perspective on selected issues; Claremont Kirton; 2007

CDF, within the country programme is focused on improving the competitiveness of the SME sector. Moreover, it is also considering support to one Member State to facilitate its exploitation of these agreements through the provision of a Trade Policy Advisor.

conversion to clean energy sources of power to help lower their long term costs. CDF financing is supporting the completion of the airport in St. Vincent and the Grenadines as well as its use of clean energy sources for electricity. The enhancement of the power supply for the airport in Dominica and the development of access roads to farmlands in Guyana are some of the infrastructure projects with which CDF is associated. In the area of standards to support exports CDF is financing the supply of testing equipment for Dominica²⁴.

CDF is committed to the programmatic results based approach where interventions must be seen as part of a plan for the achievement of outcomes identified and desired by the beneficiary and supported by several development partners working towards the same goal. The CDF is of the firm view that border integration of the CSME is directly linked and related to the process of regional integration and requires first an investment in the national economies of Member States to be successfully realized. The investment has to be in terms of higher commitment by each Member State to ensuring the success of its country assistance programme, which after strengthening the business environment and creating the fiscal space should include projects to strengthen the administrative and governance structures to facilitate border integration which is essentially the freedom of movement agenda set out in Chapter three of the Revised Treaty. In addition, there must be an adequate and appropriate supply of technical and financial resources to strengthen the business environment in an environmentally sustainable basis and increase the efficiency of the labour market. The external environment, the capacity challenges and vulnerabilities to geography faced by Member States necessitate a strategy premised on some external support of resources to augment those internally mobilized.

²⁴ A fuller detail of the programme financed by CDF can be found in its Annual Reports published on its website www.caricomdevelopmentfund.org.

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