Statement by Richard H. Kaijuka
Date of Meeting: June 28, 2001

**Eastern Caribbean Sub-Region: Country Assistance Strategy**

We welcome this discussion on the Country Assistance Strategy for the Eastern Caribbean sub-region and the accompanying multi-country HIV/AIDS Prevention and Control Project. We commend Management and Staff for the excellent quality and detailed coverage of issues in both documents. We are particularly pleased that the issue of HIV/AIDS is presented to the Board along side the important discussion of the Region’s IBRD/IFC CAS. This should help raise the profile of this epidemic in the Bank’s dialogue with the authorities in the sub-region. The CAS is particularly anchored on poverty alleviation through the reduction of income insecurity and vulnerability at the aggregate and the household levels, and by building human and institutional capacity. This is consistent with the strategy and policy objectives articulated in the “Caribbean Vision 2020”. Moreover, the broad consultations with OECS Governments, civil society, sub-regional organizations and other development partners provides a strong basis for the wider ownership and acceptance of this CAS by the various stakeholders.

Recent efforts in the sub-region to restore monetary and macro-economic stability have produced some significant and encouraging results. Growth performance in the second half of the 1990s averaged 3 percent; consumer price inflation remained relatively low, around 1.3 to 4.2 percent in the OECS and 2.5 percent in Barbados; and the monetary union which is widely believed to be serving the OECS well has maintained a sound monetary and credit management during this period. The common monetary arrangements have also helped in fostering fiscal discipline, although there have been some marked slippages, particularly in Antigua, Dominica, and St. Kitts, as the CAS document clearly shows in Box A.

However, a lot remains to be done, particularly in the social sectors, and in addressing the poverty and equity issues. The incidence of poverty remains high, with about 12 percent to nearly 30 percent of the sub-region’s people being poor. Similarly, income inequity in the sub-region is quite high. While social indicators in the OECS countries have improved significantly during the last two decades and now compare favorably with other middle-income countries in the LAC region, the quality of education at the secondary and tertiary levels remains poor and some calculated efforts are needed to integrate the rural poor, particularly those employed in agriculture.

Against this background, we believe that the Bank Group’s assistance strategy for the
sub-region, crafted in close collaboration with IFC, has enough flexibility built into it to enable the Bank and other partners to assist authorities in the sub-region as they respond singularly and collectively to many of the challenges that face developing countries in general and the small island states in particular. Given the magnitude of this task, we agree that the Bank and IFC have to be selective and concentrate on those areas where they have a comparative advantage. We, therefore, support the CAS.

There are, however, a few issues discussed in the paper on which we would like to comment:

First: We welcome the emphasis by the sub-regional Governments on diversification as one of the principal means of coping with income insecurity and poverty and promoting stable, sustained growth. However, we would like to make the point that a diversification which merely attempts to shift away from one sector to other activities in another sector – as we see in the OECS countries – may have the tendency of heightening the incidence of poverty, particularly in the rural areas. For example, the so-called successful diversification away from agriculture towards tourism and financial services in Eastern Caribbean has a number of weaknesses. Labor standards in the production of sugar and bananas are more likely to be less demanding than those in the tourism and financial sectors. Therefore, the less trained, less skilled and less sophisticated laid-off workers in agriculture may not have the skills needed in other sectors. That such sector diversification will need to be tempered by properly planned and implemented safety nets, at least for the short- to medium-term, cannot be over-emphasized. There is also the long-term need to ensure that the movement away from the production of one single crop will not create an over-reliance on one service sector as the sector increases in paragraph 15 suggest for Antigua, Grenada and St. Lucia. While we are clear on the role the EU is playing on agricultural activities in the sub-region, we are not quite clear on how the Bank Group in general and IFC in particular, intends to help in bringing about a balanced and successful diversification.

Second: Capacity constraints in the sub-region. Individually, island states face some limits in their access to the skills, information and the finances needed for a successful global integration and economic growth. As a result of these limitations, the interests of these countries are easily overwhelmed by activities in larger countries or even large business corporations. With an overall population of under one million, institutional capacity is limited and per capita cost of basic social and infrastructure services is very high. Therefore, the pooling of regional resources and institutions can bring about economies of scale to overcome these shortcomings. It is in this regard that we support the sub-regional approach outlined in paragraph 43 for addressing implementation concerns, including financial management, procurement and aid coordination. Two areas in which the document has not been quite clear are: (1) how the Bank intends to help in organizing such a sub-regional approach, and (2) whether the Bank’s DGF could help in providing short- to medium-term assistance to upgrade and sustain in-country capacities within the region?

Third: Closely related to the issue of weak capacity is the problem of a relatively poor Bank portfolio performance in the Eastern Caribbean countries. We note with concern that the overall weak project management has led to slow implementation and increased the risk that
projects may not meet their development objective. What is more disturbing is that even after the closing of CDB V and VI projects, the commitments at risk have increased again in the last two years. We would be interested in knowing whether the sub-regional context applied in the preparation of these projects has made them more complex than if they were designed for an individual country. If so, how is the Bank planning to address this issue in its pipeline projects? Furthermore, data in Table 3 show a very large proportion of an undisbursed portfolio in the region. We would urge Management to intensify its supervision of projects in this region with a view to increase their disbursement and the broader issue of their implementation.

Fourth: Private sector development. The private sector has a significant role in promoting economic growth and reducing poverty in the region. However, the issues that have affected the public sector – vulnerability to external shocks including natural disasters, weak human capacity, etc. – have also affected private sector development. This is why we are encouraged by the external partners’ activities to help strengthen skills and capacity in the private sector. In particular, we welcome IFC’s technical assistance in developing the Caribbean Small Hotel Brands website which promotes training of small hoteliers. The island nations provide a unique opportunity for assisting organized but rather small indigenous enterprises. IFC’s challenge in this area is how it can produce innovative mechanisms to help sustain the activities of these micro enterprises. We would be interested in knowing a little more about what IFC investment activities can help during this CAS period. We emphasize this because in order to make a significant impact on poverty, particularly as more work in continued on diversifying away from rural agriculture, it is important that initiatives are undertaken to assist the SME sub-sector.

Fifth: We concur with the assertion in paragraph 60 that defining a low-case scenario in terms of the overall lending envelope for this multi-country CAS is difficult. We, however, agree with the base-case program assistance for FY02-06 which would entail new commitments in the order of $100-110 for the five OECS borrowers. While we welcome the existence of a $10 million contingency fund for emergency assistance within the framework of ongoing OECS Disaster Management Program and hence the absence of need to consider a high case lending scenario, we are concerned that the consideration of a high case lending scenario should be based exclusively on possible damage caused by a natural disaster. What will happen to lending in the event of very high demand for funding in the social sectors as a result of good policy performance in a number of the member countries of the OECS while there is significant damage to one of its members requiring funding to cover such a damage?

Finally, we wish the authorities of the OECS success in their efforts to eradicate economic and social imbalances. We would also like to commend Staff for the high quality of their documents.