THE FINANCING OF DEVELOPMENT - CHALLENGES AND OPPORTUNITIES FOR CARICOM COUNTRIES

Although I never had the pleasure of meeting Ms Adlith Brown, I have come to know of her as a distinguished Caribbean economist worthy of both our recognition and remembrance. I deem it an honour to have been asked to give this year’s commemorative lecture. It is an honour made even greater by the presence with us this evening of H.E. President Bharrat Jagdeo.

At the outset I must confess to some doubt about my ability to say anything worthwhile to such a learned group as this - most of whom I imagine are financial experts. Sad to say, I have no head for statistics myself and very often can hardly remember my own telephone number. I was finally able to overcome my trepidation by persuading myself that perhaps my political and diplomatic perspective on development and the financing thereof, gained from almost five decades of experience in international affairs, might prove to be of some interest to you.

ORIGINS OF THE DEVELOPMENT PROCESS

The development process is, we know, as old as the hills, starting with mankind’s first efforts to improve its standard of living. It is not my purpose here to review this long span of history, except to note the significant momentum which was achieved at the end of the era of colonisation when many countries, whose affairs had hitherto been managed by distant metropoles, became free to attend to their own welfare and to forge their individual destinies. The iron
curtain which had long symbolised the East – West camps of the Cold War was replaced by a new division in terms of levels of development between the North and South. Ever since then, the two sides have been engaged, particularly within the newly created United Nations Organisation, in discussions and negotiations to bridge the abyss of disparity which separates them. Several development strategies were elaborated over the years to this end. If truth be told, however, real progress has been limited, leading one to ask, as the French would say, whether the game was worth the candle. Some pessimists have even come to believe that development is no more than a myth, a mere will o’ the wisp which will forever elude our search.

ADVENT OF GLOBALISATION - CONSEQUENCES

With the advent of globalisation, the challenge of development and hence development financing have become even more difficult. While the scope and focus of development activities have expanded significantly, this expansion has coincided almost precisely with a perceptible retrenchment of political and financial commitments to development at the international level. Strategic geopolitical and ideological considerations which previously influenced development appear to have receded somewhat while new ones such as democratisation, climate change and human rights have come to the fore. Moreover, with their own economic problems made worse by the latest global financial crisis, the developed countries are less likely to be generous of heart toward developing countries. The latter, meanwhile, are witnessing a continued rise in poverty, lower standards of living, worrying unemployment and social dislocation.
NEED FOR NEW AND ADDITIONAL FINANCING RESOURCES

The growing inadequacy of resources to meet these challenges has highlighted the need for new and additional financing. The Millennium Development Goals, which were agreed to by world leaders in New York at the UN General Assembly, set specific social development targets which the international community committed itself to reach by the year 2015. It is now estimated that in addition to resources already pledged, some fifty billion dollars or more would be required annually if the stated objectives are to be achieved as planned. To address this deficit, the first ever UN Conference on the Financing for Development was held in Monterrey, Mexico in March 2002. Several proposals were put forward at that meeting to mobilise financial resources to assist developing countries to pursue their economic and social strategies. A follow-up conference to Monterrey was held last year in Doha, Qatar to assess the progress made. The meeting found that although there had been a “substantial increase in private and public flows since 2002”, there was a reduction in those flows after 2007 as a result of “multiple and inter-related global crises and challenges such as increased food insecurity, volatile energy and commodity prices, climate change and the global financial crisis”.

RECOMMENDATIONS OF DOHA

While reaffirming the commitments made at Monterrey, Doha sought to address the problems created by our changed international environment. Among its many recommendations, the conference called for the development of “a sound and broad-based financial sector” as a major component of any national strategy, the aim being the creation of diversified, well-regulated, inclusive
financial systems to enhance transparency and accountability and promote
growth-generation. Countries were urged to undertake fiscal reform, including
tax reform, considered essential to the success of macro-economic policies and to
mobilising domestic public resources. Budgetary processes should be managed in
a transparent manner and the quality of expenditures assured. The financial
infrastructure should provide for the equitable and inclusive empowerment of the
population. These prescriptions indicate clearly that the onus of development falls
primarily to national governments.

**TRADITIONAL SOURCES OF DEVELOPMENT FINANCING**

It may be of some interest to look at the recent evolution of some of the
sources of development financing on which countries have relied traditionally.

i) **OFFICIAL DEVELOPMENT ASSISTANCE (ODA)**

The philosophy of the market, which is perceived as the engine of economic
growth, has led to a diminution of the importance of ODA to the
development pharmacopeia. ODA which, in the eyes of some developed
countries is seen as wasteful and wasted, is no longer considered a major
source of financing, but rather as a secondary complement to national
budgets. Yet for small countries which do not have many options for
financing development, ODA remains very necessary. Fortunately, several
major countries, including the USA, the EU and other G 8 countries, have
announced their intention to raise the quantum of their ODA contributions.
If this increase materialises as promised, it will bode well for the
Development Agenda which could see both the quantity and quality of
resources available to it significantly enhanced. It would help however if
delivery time-tables could be mutually agreed upon to provide for greater predictability of flows.

While there is the promise of increased ODA, its benefits may be dissipated by the onerous debt burdens faced by many developing countries, including several CARICOM states. The OECS countries, in particular are reported to be now among the top 16 most indebted countries as a percentage of GDP. We need to work with the international community toward an Agreement which would make debt management more sustainable for small and vulnerable countries and, in appropriate cases, for complete debt write-offs.

ii) **UN DEVELOPMENT FINANCING**

In this context, I should perhaps say a few words on the role of the UN in the financing of development. Using both assessed and voluntary contributions to its budget, the Organisation attempts to fund its various development agencies such as UNDP, UNICEF and UNFPA. The trouble is that many countries, even the largest, do not pay their assessed contributions in time or in full, and in the case of voluntary contributions, choose to give very little or nothing at all. Commendable exceptions are the Nordic countries and the Netherlands who use the UN as a preferred channel for multilateral assistance. On the whole however, the funding system is less than satisfactory since it leaves too much to the whims and fancies of the developed countries and creates an unhealthy donor/recipient relationship. No wonder therefore that the UN has
become more of a catalyst for development financing than a source of funding itself.

iii) IMF - SPECIAL DRAWING RIGHTS

A significant device that is used for making resources to developing countries has been the Special Drawing Rights (SDR) offered by the IMF. At the G20 meeting in London last April, the decision was taken to make $250 billion worth of SDR’s available to low-income countries in this time of crisis. It is anticipated that approximately $18 billion of this amount might come to CARICOM. However, not enough appears to be known yet about this facility to allow for a meaningful judgement as to its likely impact and effectiveness. Moreover since the SDR solution may come with the IMF’s usual conditionalities and costs, its utility may be less than imagined. If, moreover, the allocation of the amount is based on the IMF’s quota system, the greater part is unlikely to go to those who need the relief. We will have to wait and see.

iv) INVESTMENT FLOWS

Because of diverging views on development between developed and developing countries, it is not surprising to find these days that pride of place in any Development Declaration goes not to ODA but rather to private international capital flows, particularly foreign direct investment (FDI). The usual prescriptions for increasing FDI are provided, including the creation of an enabling climate, the use of bilateral treaties and the building of appropriate institutions and infrastructure. Only passing acknowledgement is made of some of the impediments faced by
developing countries in attracting investment. It is also the case that foreign investment, especially of the speculative and transient kind, is very selective in terms of where it goes. Much has also been made by the developed countries of the role which remittances from the diaspora can play in providing developing countries with much needed financial resources. Governments are therefore encouraged to find ways to reduce the costs of transmission of these contributions. We fear, however, that the level of remittances from affected countries is likely to be considerably diminished as a result of the prevailing financial crisis.

Actually, CARICOM countries have done quite well recently in mobilising FDI showing an overall rate of 30% of GDP since 1990. However, given the current financial crisis, investment capital is likely to decline forcing small and vulnerable economies like ours to be more competitive in our search for development resources. Other factors such as revenue losses resulting from the reduction/elimination of tariffs, the disappearance of preferential markets and the heavy toll imposed on our societies by crime, arms and drug-trafficking and frequent disasters – both natural and man-made, all combine to raise the cost of development in this era of globalisation and open markets. Accordingly, our Governments will have to look beyond traditional sources for development to other possibilities which have appeared in Asia and the Middle East. The sovereign wealth funds of some of these countries seem promising and should be explored. To this end, the region’s economic diplomacy should be revisited and reoriented in search of new opportunities for development cooperation and foreign investment.
v) TRADE LIBERALISATION

Central to globalisation’s dogma on the financing of development is the liberalisation of trade. The belief is that such liberalisation, coupled with “a universal, broad-based, open, non–discriminatory and equitable multilateral trading system”, will stimulate global trade and benefit development. Many developing countries, including those of CARICOM, hold the view that unless the new regimes of cooperation specifically address their particular vulnerabilities and are development–centered, they will not help. For this reason, CARICOM countries were generally disappointed with the outcome of their negotiations with the European Union for a new economic partnership agreement. Now they will have to face other trading partners such as Canada and the United States who will no doubt demand equal or bigger concessions. A major concern will be with the pace and sequence of trade liberalisation, since any sudden changes can have a negative impact on individual economies. The hope is, of course, that the current Doha round, when/if concluded, will facilitate the transition of developing countries, particularly the weak and vulnerable, to a fully liberalised global economy.

REVIEW OF DEVELOPMENT EXPERIENCE

A summary review of the development experience over the past six decades shows that, at best, the results have been a mixed bag. Admittedly,
some progress has been achieved, but for the greater part, the economies of the south have proved resistant to development. Several reasons may explain this outcome. In 1993/94, during Guyana’s Presidency of the 48th United Nations General Assembly, we launched the World Hearings on Development – an initiative which sought to promote a greater understanding of the development dilemma. If I may say so myself, it was a unique and interesting exercise since for the first time in the history of the UN organisation all major actors in the development field were brought together for a frank dialogue on the various topics. The eminence and expertise of the protagonists in the process guaranteed a high level of debate and its results.

RECOMMENDATIONS FOR NEW AND ADDITIONAL SOURCES OF DEVELOPMENT FINANCING

Although slightly dated perhaps, the views expressed at the hearings remain valid. It was generally felt that the globalisation of markets did not provide mechanisms by which winners could compensate the losers. The result was that the losers – the developing countries – became quickly disenchanted with the inequity of the process. As such, there was an obvious need for international safety nets, greater access to private flows, accelerated debt write-offs for the poorest countries and a substantial emergency fund to finance relief efforts. Provision for such assistance, it was suggested, could come at the domestic level, from greater savings, improved taxation and economic growth. At the international level, there could be taxation on low elasticity commodities, on the use of common property resources such as the sea-bed, on international
capital transactions and on the profits of transnational corporations. However, when specific proposals like the Tobin Tax were advanced initially, the reaction of the developed countries was generally hostile. The United States, for example, argued that such taxation would be an infringement on national sovereignty and was therefore totally unacceptable.

As the proponent of the New Global Human Order, an initiative which was launched at the World Summit on Social Development by the late President of Guyana, Dr. Cheddi Jagan, Guyana was kept at bay from pushing its proposals for finding new and additional resources. The developed countries were just as allergic to the word “order” as they were to “taxation” – this despite the fact that many leaders like George W Bush of the USA and Jacques Chirac of France among others, have also advocated the creation of a New World Order. However despite this rejection, the concept of new and additional financing has come a long way toward materialisation. As a result of the work done by bodies such as the Group on Solidarity Levies to Fund Development and the Global Action Initiative against Hunger, we now have the International Financial Facility for immunization, pilot advance market commitments and airline tickets solidarity levies which help to fund many activities in the social sector. Other initiatives which have been generated here in our region include the U S Millennium Challenge Corporation, PEPFAR (AIDS), the India – Brazil – South Africa Fund and the Petrocaribe Fund. I am also pleased to note too that just the other day, President Sarkozy of France, prompted no doubt by the experience of the latest global financial crisis, has revived the proposal of the Tobin Tax. Other countries, like Brazil, are experimenting with a tax on air travel. These are all ideas whose
time has come to allow much needed access to additional resources for the developing world.

ADDRESSING THE COSTLY CONSEQUENCES OF CLIMATE CHANGE

In the light of the many scientific studies that have been done on the growing threat to our physical environment, it must be clear to all in the region that the issues of climate change must now be fully integrated into our development agenda. A recent computer model created by the British Meteorological Office predicts a global temperature rise of 4 degrees C by the end of this century. This precipitate warming, if the scenario is true, could result, in significant sea level rise, a serious reduction in rainfall and other weather hazards. Agriculture and food production will suffer and so, too, will our peoples. As a country where 90% of its population live on the coastal belt that is 1.4 metres below sea level, Guyana will be particularly disaster prone. Equally vulnerable will be many other CARICOM territories with fragile eco-systems and high economic dependency on tourism. In the run-up to the Copenhagen Conference in December therefore, we have a common challenge and responsibility to ensure that the outcome addresses the many problems of mitigation and adaptation which we as a region will be forced to confront.

GOG PROPOSAL - LCDS

Global carbon markets which have been emerging from the campaign to respond to the challenges of climate change can also prove to be an important source for future development financing. In anticipation of the Copenhagen Conference which is expected to produce a successor agreement to the Kyoto Protocol, President Jagdeo of Guyana has promulgated on behalf of Guyana a Low
Carbon Development Strategy for consideration and, hopefully, for approval at the meeting. The strategy which is based on an “avoided deforestation” model is aimed at aligning national development requirements with the global need to combat climate change. A preliminary study has shown that by placing under long-term protection Guyana’s entire rain forest, which is some fifteen million hectares in size, and is valued at 580 million dollars – considerable financial resources can accrue to the country’s development. Once established, the Reduced Emissions from Deforestation and Degradation Facility (REDD) is expected to achieve global carbon neutrality by 2030 and to allow Guyana to access a fund of some forty billion dollars to develop its economy. What you have therefore is a trade-off between development and deforestation. The initiative, I may add, is a good example of things that a country may do on its own to augment its resources for development.

CARICOM – INTERNATIONAL TAX COOPERATION

I would also wish to highlight briefly one other proposal which has figured in the discussions for the financing for development and is of clear interest to many CARICOM countries, viz. international tax cooperation. As you are aware, the region’s operation of off-shore financial centres in some territories has attracted strong criticism from the OECD member states. Whenever the issue has been raised, the constant refrain can be heard that we in the Caribbean are engaged in a “race to the bottom.” At the G8 meeting in London, the charge was repeated although reportedly we were not the main defendants in the dock. However, despite their professed concern, the developed countries still appear reluctant to accept the creation of an institution or network that would set international
standards of operation. They do not wish, it seems, to lose control of the domain by including other countries on an equal footing. We are therefore still at the stage of dialogue on this matter. The recent financial fiascos which erupted within the region have certainly not helped the situation and require the region to rethink and reformulate a strategy for advancing in this area.

ROLE OF THE PRIVATE SECTOR

There is one last potential source for financing development which I would like to speak of i.e the Role of the Private Sector. Among the participants in World Hearings on Development referred to earlier I should tell you were Ted Turner, Chairman of TBS and his then wife, Jane Fonda, the famous actress and activist. It may interest you to know that their interest and involvement led to the establishment of a billion dollar Trust Fund to help finance the UN’s development activities. It was, to my mind, an impressive example of the contribution which the private sector, if it was so inclined, could make to development. After all, it is a main beneficiary of the process and should therefore be prepared to be an active supporter. A few years ago, the UN had formulated the Global Compact which was intended to enlist the private sector to the cause of development. As far as I know, not too many companies signed on to the initiative. I would very much hope, however, that our regional private sector - “our engine of growth” - will see fit to play a greater part in the collective campaign for our economic progress.
SYSTEMIC ISSUES

This brings me finally to a review of the system which provides for the financing of development within the United Nations system. There is a feeling on the part of developing countries that although the Organisation’s purposes and principles remain valid, its operational performance has been sadly disappointing. The present arrangements, it is felt, are unable to cope with the magnitude of the development challenge. With the constant multiplication of agencies to address the wide array of international activities, we now have not only a huge alphabet soup of acronyms to label them, but also, an increasingly incoherent and impracticable system. Very often, the lack of clear roles and responsibility leads to over-lap ineffectiveness and inefficiency. At the country level, not surprisingly, the absence of sufficient co-ordination between the countries and agencies involved produces a highly superficial and fragmentary approach to the development agenda. So vast is the system in fact that one cannot help but wonder if co-ordination and coherence are indeed possible.

ATTEMPTS AT REFORM

Nonetheless, UN member states have not failed to grasp the nettle of reform in the hope of seeing some improvement. In a process that is still ongoing, various ideas and proposals have been put forward, the aim being to make decisions on development less rhetorical and more practical. This explains why on the UN’s 50th anniversary, the General Assembly adopted the MDG’s - a set of clear targets to be reached within agreed timeframes, instead of yet another lofty declaration. We are still left however with the challenge of assessing implementation. The developing countries as you know are regularly
monitored on their progress toward these goals. However, as was so rightly pointed out by an NGO representative at Monterrey, there is no corresponding evaluation of the developed countries’ performance in honouring their commitments. Moreover, despite the frequent asseveration of the need for ownership of development programmes by the recipient countries, the process continues to be driven mainly by the donors and the multilateral financial agencies. At the local level, where partnership projects are supposed to be coordinated by the UN in the interest of the host country, such coordination is often elusive given the often differing agendas of donors and the limited clout which the UN has to bring them in line.

**ROLE OF THE UN - BWI’S**

Experience forces us to conclude, as the World Hearings did more than a decade ago, that the principal role for the financing of development lies not with the UN but rather with the Bretton Woods institutions (BWI). Over the years, the missions of the BWIs have all crept so far away from their original mandates that the UN itself has become effectively marginalised. The BWIs have been able to do their own thing because, unlike the UN, they do not have a one country/one vote system, but rather one of weighted voting that denies the developing countries any real say in the decision-making process. The same is true of the WTO. The lack of democracy and transparency in the operations of these bodies has been a source of dissatisfaction for many developing countries. Not surprisingly, there has been for some time now, a campaign for the reform of these institutions in order to make them more representative and responsive to the needs of the developing countries.
REFORM OF THE FINANCIAL ARCHITECTURE

The current global crisis is expected to provide a new impetus to the reform of the existing financial architecture. Ideas and initiatives abound on how the existing system may be made more adequate and responsive to the challenges of this development. Among the desiderata are greater legitimacy, equitable representation, flexibility in operation, effectiveness, accountability and transparency. I do not wish to rehearse here the catalogue of suggestions except to say that in terms of governance of the MFI’s, President Jagdeo of Guyana has suggested, as an interim measure without prejudice to any over-all agreement, the expansion of the G20 to include representatives of relevant regional organisations such as CARICOM to better reflect the concerns and interests of developing countries in future negotiations. Yet another interesting idea advanced is the creation of complementary institutions on a regional basis to assist the global bodies to better maintain international financial stability. There are some, however, who believe that the whole system is so broken, mere tinkering with its parts will not do and that what is needed is a return to the drawing board. While Article 108 of the Charter allows for comprehensive review of the organisation’s structure, there is a fear that if taken apart it may become like Humpty Dumpty, who, once he had become undone, all the kings’ horses and all the kings’ men could not put him together again.

CARICOM’S POSITION AND RESPONSE

Whatever course the reform process takes, the Governments of the region are faced first with the task of putting their own house in order. In a prompt
response to the latest financial crisis, individual territories have moved to shore up their systems in order to curb further volatility. A College of Regulators has been set up to oversee banking operations. At their conference last July in Georgetown, Guyana, Heads of Government went further to establish a working group, chaired by President Jagdeo, to assess the impact of the crisis on each member state and to make recommendations on how negative repercussions may be remedied. Obviously, the conditions of the various countries may differ and so too, accordingly, will the remedies. Almost everywhere, however, the pattern is the same, viz a general slowdown in the economy, the threat of growing unemployment, rising commodity prices and possible budget deficits. If these risks are to be curbed, a collective strategy will be required of the region to be able to fill the resource gaps to ensure that their social agendas do not suffer.

As determined by the CARICOM Heads of Government, the region’s central banks will have an important role to play in the formulation and implementation of such a strategy. A primary goal will be the restructuring of the Caribbean Development Bank to make it the main channel for all the region’s development resources and thus to be better able to cater to the needs of its membership. In some quarters, contemplated reform appears even more extensive, calling for a further revision of the Treaty of Chaguaramas and the creation of a new development model that would address the altered circumstances of today’s world. While there is certainly a need for strategic adaptation and “repositioning” (a word now entrenched in CARICOM’s economic lexicon), I would warn that reform per se is no substitute for political will, and that without firm commitment to a clear definition and full implementation of a common agenda for development, there will be little or no progress.
GLOBAL RESPONSE: UN CONFERENCE

In the end, however, there is a limit to what we may be able to do on our own as small and disadvantaged countries. The current crisis is, as has been generally recognised, a global one and therefore requires a global solution. At a recent United Nations Conference in New York the full membership (all 192 states) had an opportunity to discuss the causes, as well as possible remedies for its resolution. A primary concern was obviously the mobilisation of resources to allow affected countries to weather the current storm and beyond that, to see how the financial system could be strengthened to prevent a recurrence of the crisis. In terms of the outcome, many developing countries, while deploring the lack of concrete measures in the final document, saw the Conference as symbolically important in that it had allowed them to have a say on matters which the developed countries believe to be within the exclusive prerogative of the multilateral financial institutions. Notwithstanding the reservations of some countries, an open-ended working group was established to follow-up on the issues raised. An ad hoc group of experts was also instituted by the Assembly to assist in developing the capacity of the UN to play a more meaningful role in the management of the world’s economic and financial affairs. It therefore seems, as the Secretary General of the Organisation euphorically put it, we now have a new group - the G192 - which will soon have some role in the development process. One cannot be sanguine about change however, since, as past crises have shown, the hue and cry for reform of the financial architecture diminishes once the eye of the storm has passed.
GRASPING THE OPPORTUNITY FOR CHANGE

Still, a vista of opportunity has opened up for the developing world, offering it a fresh opportunity to try to make the international economic and financial system more equitable and just. I believe that our CARICOM countries must be part of the process to devise more congenial governance arrangements. As a first step, perhaps the region should establish its own Working Group tasked with formulating proposals and recommendations for the consideration of Governments and eventual submission to the UN group. It is important that all relevant bodies such as your own which work on the issues of development should contribute to this preparatory process. Far too often, I believe the absence of consultation and coordination between relevant Governmental actors and agencies in the region leads to less than informed positions taken in various fora by our diplomatic representatives. Equally desirable would be designation of a core group of spokespersons who could be relied upon to advocate our particular case at every turn of the negotiations. To reinforce our negotiation strength, we should make alliances with likeminded states such those within the G 77, on issues of common interest.

CONCLUSION

Political and diplomatic arguments, while extremely helpful to our case, are not enough to optimize the prospects of our region’s development. Indispensable to success are a belief in the justice of our cause and perseverance in our efforts. Unfortunately, on occasions, we have been less than forceful in the presentation of our case. The need for special and differential treatment for small and vulnerable states such as ours is, after years of discussion and negotiation, still
only grudgingly accepted. We cannot rest until recognition of this basic principle is fully acknowledged by the international community, more particularly by the donor countries and the relevant multilateral agencies. Contrary to the assertion of many in the developed and even the developing world, it is difficult, if not impossible, to match the competitiveness of states that are much better endowed. We are for the most part fly-weights in the contest with the economic heavy-weights of this world.

Lastly and very importantly, we must seek to remove development and the financing of development from the colonial context in which they were conceived. Regrettably, vestiges of this old unequal order still remain in our relationship with the developed countries. Far too often the experience has discredited the donor and demeaned the recipient. The results thus far cannot be said to have achieved the intended objectives. The deep asymmetries which exist between developed and developing countries have become more accentuated and threaten further alienation. We must therefore sooner rather than later attempt to find a consensus between the two sides built on the principles of equity, social justice and mutual respect, on which development can be more solidly and securely built. If we fail to do so, we shall forever remain dependent on others and denied the freedom to achieve our full potential for development.